[Welfare Reform Plan 7/25/77]

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THE PRESIDENT HAS SEEN.

THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D. C. 20201

July 25, 1977

MEMORANDUM FOR THE PRESIDENT

FROM JOE CALIFANO

SUBJECT: The Welfare Reform Plan

I. INTRODUCTION

Following the principles for welfare reform that you announced on May 2nd, Secretary Marshall and I -- with Charlie Schultze, Stu Eizenstat, OMB and other EOP and Treasury staff -- have developed a detailed proposal that will, if you approve, form the basis for a Presidential message to Congress in the first week of August.

The proposal which we present to you today has been significantly improved because of our detailed consultation with the states, and with other interested parties. We learned a great deal about the actual operation of the welfare system in the states, and we have developed a sophisticated data base that has helped us assess the impact of our proposals.

The detailed plan builds upon the basic structure that you approved in late May. It places a heavy emphasis on work and establishes an incentive structure that favors private over public employment. It consolidates and simplifies the nation's cash assistance programs. It makes the welfare system more adequate and equitable, and it provides incentives to keep families together.

To the greatest extent possible, we believe that the detailed proposal satisfies the requirements you laid down in May.

Given the long and complex history of welfare in this country, and given the important role the states have traditionally played in providing assistance to the poor, the proposal is not as simple or as equitable as it might be if we were designing a wholly new system of work and cash assistance for the low income population. But it is a significant advance over the welter of anti-work, anti-family, inequitable and often inadequate welfare programs for the poor. And it establishes a sound structure for future reforms.

This memorandum has three sections:

Part II describes the cash assistance program (pp. 4 to 20).

Part III, which was prepared by DoL, describes the jobs program (pp. 21 to 32).

Part IV discusses the costs and impact of the proposal and presents the case for adding additional dollars to your welfare reform package (pp. 33 to 62).

This is a very long memorandum because we thought it important that you see the proposal whole. If you wish to reduce your reading time, I suggest you focus on the most significant issues which you must decide:

- The Earned Income Tax Credit

  We propose a significant expansion of the Earned Income Tax Credit -- it should rise steadily to the entry point of the positive tax system (i.e., about $8,000 in 1976 dollars after tax reform), rather than peaking at $4,000 as required by present law (see pp. 8 to 9 , and 54 to 55). This provision is critical to credible work incentives for the working poor. And there is near unanimity within the Administration that the political viability of welfare reform turns on the inclusion of this enlarged EITC in our proposal. Its cost below the tax entry point -- approximately $0.3 billion -- is included in the zero based estimates. But the $3 - $4 billion in additional cost above the tax entry point will have to be met with dollars from tax reform.

- State Supplements

  We have devised a system by which the States may supplement Federally established wage levels and cash benefit levels (See pp. 9 to 12 and pp. 25 to 26). States will be given the option of supplementing the Federal welfare payments for those not required to work. If they do so in a manner that complements the Federal cash program and the objectives of welfare reform, the Federal Government will share in their cost and administration. And if the States supplement the benefits of those not required to work, then they must also supplement both the benefit levels and public employment wage levels for those who are required to work in order to preserve the incentive structure of the jobs program and advance the Federal goals in the cash assistance system. The dimensions of state supplementation will determine the critical issues of fiscal relief and the effect that welfare reform will have on current recipients.

o The Case for Additional Funds

We set out various strategies for using additional expenditures and making additional program modifications that we consider important to the integrity of the proposal (pp. 33 to 62). We suggest that other sources of funds, such as revenue from the wellhead tax and savings from HEW programs, be included in the "no higher initial cost" expenditure base. Expansion of the zero base total will allow us to fund certain alterations in both the jobs and cash assistance programs that will substantially enhance the political attractiveness and equity of welfare reform. Alternatively, we present the case for funding these modifications out of new monies, and suggest methods of phased funding that will still allow us to satisfy your "no higher initial cost" requirement.

If you approve our proposed alterations, and the attendant increase in expenditures and/or tax reductions, I believe that you can send to Capitol Hill a welfare reform proposal that will be a strong and sound beginning to the lengthy Congressional and public consideration of this vexing subject.

II. THE CASH ASSISTANCE PROGRAM

The cash assistance proposal has been designed to complement the jobs proposal and to serve the principal goals underlying welfare reform: work incentives for all and work requirements for those who can and should seek work; higher incentives for private as opposed to public service employment; adequate benefits both for those whom society does not expect to work and for the working poor who have extremely low incomes; increased equity; elimination of family-splitting incentives that plague the current system; and simplified, coherent administration.

A. The Federal Benefit Structure

1. General

The basic Federal benefit structure for cash assistance remains unchanged from the May 19 memorandum: The program establishes a single Federal cash assistance grant to replace the Federal share of SSI, AFDC, and Food Stamps. Two tiers of cash assistance are established: (1) an Earned Income Supplement Tier for recipients who are required to work -- single individuals, childless couples, single parents of older children, and principal wage earners in two-parent families -- and (2) an Income Support Tier for recipients who are not required to work (but may work nonetheless) -- the aged, the blind, and disabled, and single parents of younger children.

On the Income Support Tier for those not required to work, the basic benefit for a family of four with no other income would be $4200 in 1978 dollars. A single parent with a young child would receive $3000. An aged, blind or disabled individual (couple) would receive $2550 ($3880). Benefits would be reduced 50 cents for each dollar of earnings to a "breakeven" point of $8400 for a family of four.

On the Earned Income Supplement Tier for those required to work, the basic benefit for a family of four with no other income would be $2300. Single individuals and childless couples would receive basic benefits of $1100 and $2200, respectively, but only if no jobs are available.

To create a strong work incentive for those required to work, benefits are not reduced at all for the first $3800 of earnings and are therefore reduced by 50 cents for each dollar earned until the breakeven of $8400.

For a complete display of the benefit structure, see Tab A.

Within this basic Federal benefit structure, we are proposing several changes from our tentative proposal that are noteworthy:

- Reduction of Basic Benefit

We have reduced the proposed Federal grant throughout the benefit structure by ten percent from the May 19 proposal. For example, the proposed basic benefit for a family of four not required to work would be reduced from $4,700 to $4,200. The main purpose of this reduction is to provide additional funds for subsidization of state supplements (and thus additional fiscal relief) in the high-benefit states. This 10% cut in the basic Federal benefit also responds to concern that the Federal benefit level, as originally proposed, was undesirably high in some states which currently have low benefit levels. Yet, it is important to note that even the reduced Federal benefit level "dominates" current combined Federal-state welfare expenditures in most Southern states.* The proposed reduction also has the effect of lowering the "breakeven" point for the Federal benefit -- the point at which recipients cease to be eligible for benefits -- and thus, as compared to the May 19 proposal, the new benefit structure lowers the number of individuals on welfare.**

Further reduction?

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* Alabama, Arizona, Arkansas, Florida, Georgia, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, and Texas.

** We concluded that regional cost-of-living differentials and intra-regional urban/rural differentials in the basic Federal benefit were both impractical and undesirable. The type of BLS cost-of-living index that would be necessary to implement regional differentiation would be expensive to prepare and would not be available for at least four years. The differences in cost-of-living, moreover, simply do not coincide in any meaningful way with current differences in state benefit levels, which reflect not only cost-of-living differnces, but historic differences in public policy among the states. Thus, regional cost of living differentiation would not be nearly as effective as varying levels of Federal subsidization of state supplementation in providing essential fiscal relief to the states.

- <u>Indexing of Federal Benefit</u>

To protect recipients against inflation, we propose that Federal cash assistance benefits be indexed to the consumer price index (CPI). This follows current policy under SSI, Social Security and Food Stamps, but not under AFDC. There may be some political opposition to indexing. But, in light of current practice and the plain fact that the poor are least able to bear the burdens of inflation, we have concluded that benefits should be indexed. See Tab B for further discussion of this point.

- <u>Age of Youngest Child</u>

The May 19 memorandum left open the question of where the "age of youngest child" should be set for purposes of determining which single parents should be required to work. There will be strong political pressures to set the age at an extremely low level (3-6 years) on the theory that this will force mothers to work and help break the so-called "welfare cycle" (successive generations of AFDC families).

On the other hand, there are strong policy considerations which argue against requiring single parents of young children to work. In financial terms, setting a requirement that single parents of young children work would involve substantial new day care costs.

On balance, <u>we recommend that the age of the youngest child be set at 14 -- that is, a single parent whose youngest child was 14 or over would be required to work and would be supplemented on the earned income supplement tier</u>, while single parents with children under 14 would not be required to work and would be supplemented on the income support tier.

2. <u>The Work Requirement and the "Safety Net"</u>

As noted, those on the earned income supplement tier are required to work. This requirement applies to single persons and childless couples -- who cease to be eligible for any cash benefits once a minimum-wage job is offered. It also applies to principal earners in two-parent families and to single parents when the youngest child is 14 or over. If a job is offered to a principal earner in a two-parent family or single parent, they continue to receive assistance on the lower, earned income supplement tier. If the parent refuses employment, cash benefits still flow to the family to protect the children (but, in effect, no benefit whatever is provided to the adult refusing to work).

The May 19 memorandum established the principle that if the job program fails within a reasonable time to provide a training slot or a job (either public or private) to the principal earner in a two-parent family (or a single-parent of an older child), then that family would receive a higher benefit on the income support tier. We believe that eight weeks is an appropriate period after which such a "flip up" to the income support tier should take place. Any hardship during this eight-week period will be mitigated in most cases by the availability of unemployment insurance. In other cases, states might elect to use emergency needs funds to support such families.

We believe that the eight-week period strikes an appropriate balance between the need to preserve work incentives on the earned income supplement tier and the need to provide more adequate benefits when the jobs program is unsuccessful in providing an employment opportunity for the principal wage earner.

3. Relation of Cash Assistance to the Positive Income Tax

The May 19 proposal did not deal with the possibility that the breakeven in the cash assistance program -- the level at which recipients cease to receive cash benefits -- might overlap with the positive income tax. Such an overlap could create undesirable increases in cumulative benefit reduction rates and lead to serious work disincentives.

This problem can be mitigated essentially in two ways: By having the cash assistance agency reimburse the recipients for taxes paid, or by raising the tax threshold for the positive income tax system to eliminate the overlap. As a result of discussions with Treasury on this subject, we believe that the overlap with respect to the Federal breakeven can be eliminated. With state supplements in high-benefit states, however, some overlap is inevitable, and we propose to require state reimbursement of positive taxes when an overlap is created in such plans.

4. The Earned Income Tax Credit (EITC)

Our current tax law provides an earned income tax credit (EITC) of 10 percent up to $4000 of earnings (or a maximum of $400) with a phase-down to zero when income reaches $8000. It is designed to provide tax relief to the working poor, and is politically popular. But, as presently structured, the EITC adversely affects cumulative benefit reduction rates (and thus work incentives) for families receiving cash assistance benefits when earnings are in the range of $4000 to $8000.

We believe it is essential to eliminate this undesirable effect by extending the phase-up portion of the EITC to the entry point in the positive tax system (the Federal welfare breakeven should be slightly below this point). The proposal we envision would retain a 10 percent EITC but raise the maximum EITC that would be paid to approximately $800 in 1976 dollars (given present estimates of the positive tax entry point after tax reform), and phase it down by 15 percent and out at approximately $13,000 of income. (See Tab C).

This would eliminate entirely the adverse affects of the existing EITC on work incentives in the crucial $4,000-$8,000 income range. The EITC will then work to reduce the effective benefit reduction rate under the basic federal plan to 40 percent (46 percent counting social security taxes). State supplements will increase these rates, but the rules for congruent supplements (which will qualify for federal subsidization) will prevent rates for those expected to work from exceeding 48 percent and for those not expected to work from exceeding 66 percent in high benefit states.

If you accept this enlarged EITC, then we believe it essential to change the method of EITC payment from a once-a-year rebate to a weekly or monthly payment. If this is not feasible through the tax withholding system, HEW would be prepared to administer the credit through the cash assistance agency. We are presently discussing administrative options with Treasury.

The proposal would increase marginal tax rates for taxpayers in the $8,000-$13,000 income range, but the cumulative rate for these taxpayers would still be sufficiently low to avoid any significant work disincentive effect.

The cost implications of this EITC proposal are discussed in Part IV below.

B. State Supplements

Because the basic Federal benefits are below the poverty level and because the combined current Federal and State welfare payments under SSI, AFDC and Food Stamps in many states exceed the new basic Federal benefit (See Tab D), a number of states will clearly wish to supplement the basic Federal grant under the new program. By the same token, the Federal government has a strong incentive to encourage (if not require) such supplementation to minimize the problem of individual recipients receiving lower benefits under the welfare reform proposal.

The problem of State supplementation, however, is very complex. Mandating state supplements may be difficult to enforce and creates substantial Federal-state tension. On the other hand, a complete laissez-faire approach to supplementation leaves open the possibility that the states will supplement in ways that will defeat some of the central purposes of the Federal reform, including our pro-work, pro-family emphasis.

After careful consideration, we have developed a proposal that seeks to avoid these pitfalls and, at the same time, addresses the problems of fiscal relief to high-benefit states and minimizes problems of recipients receiving lower benefits. We would allow states to adopt congruent supplements following basic Federal rules. The Federal government would share in the cost of these supplements, out of funds saved by reducing the basic Federal benefit level. We would hold the states harmless for the cost not only of such parallel supplements

Annual Benefits for Family of Four
After State Supplementation

	Basic Benefits (i.e., Earnings = 0)			Disparity in Benefit Supplement to Special Public Job 2/
	Single-Parent Families	Two-Parent Families	Disparity 1/	
Nebraska	$ 4,524	$ 3,964	$ 560	$ 155
Nevada	4,200	3,964	236	66
New Hampshire	5,004	3,964	1,040	288
New Jersey	5,124	3,964	1,160	322
New Mexico	3,828	3,828	0	0
New York	5,592	4,154	1,438	446
North Carolina	3,812	3,812	0	0
North Dakota	5,184	3,964	1,220	338
Ohio	4,188	3,964	224	62
Oklahoma	4,476	3,964	512	142
Oregon	5,724	4,252	1,472	480
Pennsylvania	5,220	3,964	1,256	348
Rhode Island	5,160	3,964	1,196	332
South Carolina	3,812	3,812	0	0
South Dakota	4,848	3,964	884	245
Tennesseee	3,812	3,812	0	0
Texas	3,812	3,812	0	0
Utah	4,848	3,964	884	245
Vermont	5,292	3,964	1,328	368
Virginia	4,656	3,964	692	192
Washington	5,364	3,985	1,379	387
West Virginia	4,200	3,964	236	66
Wisconsin	5,616	4,172	1,444	452
Wyoming	4,308	3,964	344	96

1/ The disparity when no job is offered.

2/ The disparity when a minimum wage job is made available.

but also of additional supplements designed to "grandfather" current SSI recipients.

The proposal has the following basic features:

1. The states would be permitted to supplement the basic Federal benefit in two ways.

a. Congruent Supplements

-- States would be required to retain the basic eligibility rules of the Federal program (asset test, filing unit, accountable period, income definition, etc.).

-- The Federal cash assistance agency would administer computation and payment of the State supplements in conjunction with administration of the basic Federal grant.

-- The Federal government would subsidize:

- 75% of the cost of supplementation between the basic Federal benefit of $4200 and $4700 on the income support tier (for a family of four, in 1978 dollars).

- 25% of the cost of supplementation between $4700 and the poverty line ($6440).

-- To reduce the need for state supplements and to phase in fiscal relief, we propose gradual increases in real Federal benefit levels over the first five years of the program to eventually replace the 75% subsidy range. See Tab E.

-- States would be free to set separate supplementation levels for:

- Aged, blind and disabled individuals

- Aged, blind and disabled couples

- Families with children

- Others.

-- Parallel State supplements would be allowed to have breakevens above the positive tax threshold if the state reimbursed recipients for taxes paid.

-- If a state chose to supplement recipients on the income support tier, it would also be required to supplement recipients on the earned income supplement tier proportionately.

-- States would be allowed to set a higher benefit reduction rate on earnings, provided that the resulting effective benefit reduction rate (taking into account the EITC and payroll taxes) does not exceed 66 percent for persons not expected to work or 48 percent for persons required to work (including two-parent families even if they have been temporarily "flipped up" to the income support tier because of unavailability of a job).

Because the combined State-Federal benefit reduction rates may vary for single parents not required to work and for other families where the principal wage-earner is required to work, this system of supplements creates the possibility that in the high benefit states there would be considerable benefit disparities between single-parent and two-parent families. (See Tab F). Nonetheless, there is a consensus that benefit reduction rates exceeding 50 percent for those expected to work, including two-parent families, are politically unacceptable and economically undesirable. In this one instance, therefore, the proposal chooses to emphasize incentives rather than strict equity.

b. Non-Congruent Supplements

We would also permit the States an opportunity to grandfather existing recipients if they elect to do so. This option may be important because, as will be discussed below, congruent supplements will still reduce the benefits of significant numbers of recipients. The Federal cash assistance agency would not engage in the administration or subsidization of these supplements.

2. Hold Harmless: Federal subsidization of congruent state supplements will constitute a substantial incentive for states to adopt such supplements. A further incentive for states to grandfather existing SSI recipients is provided by the following "hold harmless" proposal.

- A baseline would be established which would include a state's expenditures on AFDC, SSI, and General Assistance as of a specified date.

- The cash assistance agency would reimburse the state for any excess of defined allowable expenditures over baseline expenditures.

- Allowable expenditures would be defined to include expenditures on (a) congruent supplements for any category of recipient (with a cap on benefit levels to limit Federal hold harmless exposure); and (b) non-parallel supplements that grandfather existing SSI beneficiaries.

The manner in which state supplements would work is shown for the State of New York at Tab G.

3. Fiscal Relief to Local Government Units

We recognize the importance of the commitment to give fiscal relief priority to cities and other local governmental entities in those states (primarily New York and California) where local government bears a large share of existing welfare costs.

We propose that the welfare reform legislation require states to pass on fiscal relief received through Federal subsidies of state supplements and reduced state costs to local governments in proportion to the share of state welfare costs borne by local governments. It is impractical to go further -- i.e., to require the states to pass on all fiscal relief to local government first -- since any such requirement could (and undoubtedly would) easily be circumvented by the States through their own budget processes.

C. The Filing Unit

The May 19 proposal provided for a broad filing unit consisting of all persons related by blood or marriage who live together. It was based on the presumption that most extended households share resources. Furthermore, it was an economical way of targeting assistance to those most in need. But it seriously disadvantaged many SSI and AFDC beneficiaries who, under the existing system, are permitted to file for benefits in separate filing units.

Following your comments in May, we altered the filing unit to allow separate filing status for aged, blind and disabled recipients (the SSI category). The additional cost involved in allowing continuation of this separate filing status for the aged, blind and disabled has been taken into account in the proposal by lowering the basic benefit level on the income support tier by $100. Accordingly, the revised filing unit proposal is still consistent with the approach of no higher initial cost.

The amended filing unit proposal is still regarded as unsatisfactory by most states because it will make many AFDC beneficiaries worse off, will create administrative problems because of frequent changes in the filing unit, and will make congruent state supplementation more difficult. See Tab H.

We recommend moving to a nuclear family-based filing unit in Section IV below.

D. Administration: Federal-State Roles

We have considered carefully the relative advantages of a cash assistance system fully administered by the Federal government, as opposed to one administered jointly by a Federal agency and the states. A fully Federal system would provide clear lines of responsibility and authority, create greater potentiality for uniformity of interpretation and implementation of rules, and promote cost-efficiency. However, a fully Federal system may also be less responsive to recipients at the local level, may encounter difficulties in interacting with state social service programs, and present substantial practical and political difficulties in conversion of the 100,000 existing state welfare employees to the Federal payroll. Perhaps, most seriously, it would represent an unprecedented concentration of far-flung management responsibilities in a single organization.

From our discussions with state officials, we have learned that many states wish to retain a role in the administration of the new welfare program. Other states, however, would welcome a Federal takeover, and some low-benefit states have little incentive to retain an administrative role.

We recommend that a mixed system be adopted -- giving the states the option of retaining an administrative role -- subject to Federal policies, rules and standards -- in the critical intake function.

The intake function involves processing applications, making eligibility determinations, providing due process procedures, processing periodic reports and changes in status -- in short, all activities that involve a face-to-face contact or information exchange with the recipient. Giving the states an option to preserve their role in the intake function will enable the new program to take advantage of existing state field offices and will facilitate coordination with social service programs. It will avoid the difficulties in converting a large state workforce to a Federal one. And it will also avoid the risks inherent in concentrating all management responsibilities in a single Federal agency. Uniform Federal rules on eligibility factors, accounting and reporting practices and due process standards will ensure that state administration of intake does not undermine the goal of a simple national system.

The Federal government would not permit the states to perform the additional administrative functions of benefit computation and payment. State payments with Federal benefit computation would mean costly duplication of data systems and more communications problem. And full state administration -- intake, benefit computation and payment -- would create serious Federal management problems and be less compatible with eventual transition to a fully Federal system.

E. Medicaid

The May 19 proposal left open the difficult question of how the welfare reform program should deal with Medicaid. There is no doubt that the existing Medicaid program needs reform: It has serious inequities in coverage and an adverse effect on work incentives for those who are eligible for Medicaid. Moreover, if all those eligible for the new welfare program were deemed automatically eligible for Medicaid (as are current AFDC and SSI beneficiaries), the additional costs to the states and to the Federal government would be enormous. The states have expressed great concern on this subject, and such a dramatic expansion of the Medicaid rolls through welfare reform is clearly not practical or desirable.

The effects of such an expansion of eligibility might be mitigated somewhat by other reforms. The difficulty with any major reform of Medicaid, however, is that it would anticipate and resolve important questions that are much more appropriately addressed in the context of the National Health Insurance proposal that will be presented early next year. We believe it would prejudice the development and consideration of a comprehensive NHI program to seek to reform Medicaid as part of the welfare proposal.

We have therefore concluded that there is no choice but to preserve existing Medicaid eligibility criteria in the welfare reform proposal, pending development of the National Health Insurance proposal.* This proposal has the advantage of giving the states reasonable assurance that Medicaid costs will not skyrocket as a result of welfare reform, and it avoids the problems inherent in committing the administration to a new approach to Medicaid in advance of NHI. Its chief drawbacks are that it would require maintenance of dual eligibility standards for the new cash assistance program and for Medicaid eligibility criteria. Since the NHI plan will be proposed before welfare is enacted, however, and since phasing-in of both programs will be necessary, the possibility of maintaining dual eligibility standards for the new cash assistance program and for Medicaid is perhaps more apparent than real.

F. Accountable Period

The May 19 proposal recommended a six-month or twelve-month retrospective accountable period for purposes of calculating a recipient's entitlement to benefits. This is in contrast to the prospective accountable period used in current programs such as SSI (three-month prospective), AFDC (one-month prospective) and Food Stamps (one to six months prospective). A retrospective accountable period is more economical and targets cash assistance to the core poor population -- those

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* In determining eligibility, the Federal cash benefit would not be counted as income; otherwise increased Federal benefits would knock thousands of recipients off Medicaid.

families who, over the long pull,. need assistance the most. It avoids the overpayments (and potential for fraud) inherent in any prospective accountable system where benefits are set on the basis of anticipated needs rather than objective experience.

This provision has run into strong criticism, however. Welfare and legal services groups oppose a retrospective accountable period because they believe it will create hardships for families and will be less responsive to immediate needs. The new Federal emergency assistance program, to be administered by the states, is designed in part to relieve such hardship situations, but there is some doubt that the $600 million dollars earmarked for emergency assistance in our proposal is sufficient.

Labor unions oppose a long retrospective accountable period because it has the effect of denying benefits to strikers who under the current prospective system may be eligible for welfare benefits (typically food stamps) during a strike or short period of unemployment. Finally, some believe that a long retrospective accountable period will be difficult to administer, particularly on initial intake.

While this is a difficult issue, we believe that both equities and economics support a six-month retrospective accountable period. If we start with six months, we are likely to end up with three after Congress considers the issue. See Tab I for discussion of how different accountable periods affect recipients.

G. Assets Test

Existing welfare programs have asset tests to screen out potential recipients with no income or low income but substantial bank accounts or other assets. We believe that some type of assets test is necessary for both political and equity reasons to take into account the amount of wealth held by recipients and to target benefits in the most efficient manner.

Existing programs, such as SSI, employ a limit or "cutoff" assets test, which simply disqualifies filing units with assets in excess of a specified limit. Such a system is somewhat arbitrary, creates a "notch" effect, and does not distinguish between recipients with varying amounts of assets under the limit.

We propose instead an imputation approach, in which the value of assets would be imputed as income pursuant to a specified formula. The imputation rate would be set sufficiently high to ensure, for example, that an applicant with a substantial bank account and no income would be "deemed" to have sufficient income to disqualify him from eligibility.

Certain categories of "essential" assets would be excluded from consideration -- the filing unit's home, household goods and personal effects, and the value of one automobile up to $3,000, and assets used in a profession or business.

H. Puerto Rico and the Territories

The May 19 proposal left open the question of the proper application of the welfare reform system to Puerto Rico and the territories of Guam and the Virgin Islands. Under existing law, they are basically excluded from SSI (but carry forward earlier categorical assistance programs for the aged, blind and disabled), participate in AFDC and Medicaid subject to dollar ceilings, and participate fully in the Food Stamp program.

Puerto Rico in particular has felt that it has been treated unfairly under existing programs and should be covered under the new welfare reform scheme. Inclusion of Puerto Rico and territories at full benefit levels, however, would be quite expensive and would arouse considerable political opposition. We believe that somewhat lower benefit levels can be justified on the basis of lower general wage levels in Puerto Rico and territories.

I. Special Groups

1. Students

Students present a practical problem for welfare reform because of the difficulty of determining their real resources and income in light of their often ambiguous relationship with their families. Welfare should not be permitted to replace support that would normally be provided by parents and is in fact available. On the other hand, students who are in fact independent and poor should be assisted to meet their maintenance needs while pursuing an education.

Following present Food Stamp requirements, we recommend that students declared as dependents by their parents for tax purposes be treated as part of their parents' filing unit. Students who do not live with their families and are not claimed as dependents could file separately with their eligibility determined on the basis of their income and assets (including monies received from their parents).

A second issue relating to students is whether scholarships and grants for the cost of tuition should be excluded from countable income, as they are under the current AFDC and SSI programs, on the ground that they are generally related to need. We believe that this exclusion should be continued in the new program, but that other monies for tuition (e.g., from parents) should not be excluded from income of students.

2. Strikers

DOL has assumed the lead on this issue and recommends that strikers not be categorically excluded from the welfare program. The retrospective accountable period will substantially mitigate any "pro-strike" impact that might be thought to result from including strikers in the program.

3. American Indians and Native Americans

American Indians and Native Alaskans have a unique status by virtue of treaty arrangements. As a consequence, Indians possess certain kinds of property and resources which cannot be treated as normal income or resources. The government holds lands in trust for Indian tribes which are subject to restrictions on sale and use. Moreover, the proceeds from commonly held assets (land or mineral rights) are often not available to individual Indians but are earmarked for tribal government. Finally, some Indians receive lump-sum payments from the Indian Claims Commission for judgments against the Federal government.

We propose to exclude income or assets over which an individual Indian or native Alaskan exercise no individual control, and those which are lump-sum judgment payments. All other income or assets would be treated in accordance with normal procedures. This proposal represents, in essence, a continuation of the treatment of Indians and native Alaskans under current welfare programs.

4. Aliens

a. Illegal Aliens

We do not propose to include illegal aliens in the welfare program -- except to "grandfather" a small category included under existing program, those who have resided in the United States under "color of law" for an extremely long period of time but cannot prove that they are legal aliens.

b. Legal Aliens

We recommend that legal resident aliens be included in the welfare reform program on the same terms as citizens. This follows the current pattern under the SSI, AFDC and Food Stamp programs. We believe comparable treatment is equitable in light of the fact that resident aliens pay taxes and are subject to other obligations of American citizens.

J. Pilot Projects

"Pilot projects" will be supported by many in Congress. It is important, however, to distinguish between two very different types of "pilot projects." Some Congressmen believe that there should be comparable tests of competing welfare plans before any single welfare reform program is adopted. These are not, strictly speaking, "pilot projects" as the term is ordinarily used, but full-scale demonstrations that would be extremely time-consuming and delay implementation of any welfare reform plan from 5 to 10 years. We believe that such full-scale demonstrations are not necessary in light of experience gained in the SSI program, the many income maintenance experiements, and other programs. They should be opposed.

On the other hand, we believe that genuine pilot projects -- short-term tests to evaluate administrative procedures for implementing our welfare reform proposal -- should be undertaken. We would propose to identify elements of the proposal that could profitably be pilot-tested without materially delaying the 1981 date for implementation of welfare reform.

However, a person who still has no training or job offer at the end of the 8th week would be entitled ("flip up") to the income support track. This would provide the family with the same benefit level as that available to cash assistance recipients who are not required to work (in states that supplement more generously, the benefits available to not expected to work families would be still higher, although not necessarily as high as those provided to families who are not expected to work). These higher benefits would continue until such time as either a subsidized or unsubsidized work or training opportunity is offered to such a person. Persons who refused a bona fide subsidized or unsubsidized job offer or who were fired for cause would remain on the lower track for at least another 8-week period, assuming that no job offer is made. The Employment Service would be required to establish an appeals process, subject to Federal guidelines, that assures that such penalties are assessed in a fair and equitable manner.

In order to encourage individuals to take advantage of non-subsidized employment when it becomes available, lessening reliance upon subsidized jobs, the Earned Income Tax Credit will not be paid to those in subsidized employment and training. As a further encouragement, the jobs program will allow individuals to take part-time work or a short-term job in the private sector while continuing work in a subsidized job at other times. No one, however, could receive funds from this program in the same month that he/she was employed in an unsubsidized job in the public sector. As described in the next section, the subsidized employee will have to leave his position for at least five weeks after a year. Within the year, however, he or she will be able to leave for unsubsidized private sector employment and be assured that he or she can return immediately if and when that unsubsidized employment is no longer available.

D. Work Test

Generally speaking, the incentive system reduces the importance of the work test. A family may receive the lower tier benefit even if they do not work. Only singles, couples, and "required to work" families that wish the higher benefits of the income support tier, would be subject to the work test.

All recipients required to work, including singles and childless couples qualifying for cash assistance benefits, would be required to accept any regular non-subsidized job offered at a wage rate not less than the subsidized job wage (the Federal minimum, or the Federal minimum plus the State wage supplement, if any) unless such work would be harmful to the individual's health or safety, or involves strike-breaking or violates labor protections.

The Employment Service will be responsible for determining whether any person otherwise required to work is incapable of working, or is needed to care for a sick or disabled relative, or otherwise has substantial good cause for not being required to work. A person who refused a job offer for other reasons would lose any right to move up to the higher income support cash assistance level. Such an individual would only be eligible for cash assistance benefits on the lower work support track. Any required to work person who has "flipped up" will be subject to the work test whenever the Employment Service receives new job orders or CETA openings.

Duration of Subsidized Public Service Employment; After a year (52 weeks) on a subsidized public service job, a participant would be required to participate in an intensive job search period for at least five weeks unless unsubsidized employment is found sooner. For the first two weeks, the participant would continue to be paid wages. After that, the participant would be required to continue the job search activity without pay but would receive cash assistance at the lower track cash assistance level. If private employment cannot be found, another public service job could be provided after the fifth week of job search. If no public service job can be provided by the end of 8 weeks of job search, the person would "flip-up" to the higher cash support track.

E. Wages and Overhead for Subsidized Work and Training

The hourly wage rate for time spent in subsidized work and training would be the Federal or State minimum wage, whichever is higher -- with the following exceptions.

Because cost of living and pay scales vary substantially across the nation, and because incentives to work are reduced if pay levels are not kept in line with cash assistance in states that choose to supplement cash payments, those states that supplement cash assistance should also supplement wages up to a maximum of 10 percent over the Federal minimum wage. States shall be required to pass through wage supplements to CETA prime sponsors.

Local prime sponsors will be permitted to provide wages up to 25 percent higher than the base wage to 15 percent of the workforce, in order to provide for work-leaders and incremental wage incentives. This 25 percent will be in addition to the 10 percent supplement noted above.

III. THE JOBS PROGRAM

A. Purpose of Jobs Component

A key element in your welfare reform plan is to assure that there will be incentives to seek work. A major change from current practice is to attempt to assure, at least for the principal earner in families with children, that there will be work available.

The Department of Labor will assume responsibility for (1) placing job-seekers in unsubsidized employment in the private and public sectors; (2) providing training for those who need it; and (3) creating subsidized jobs for those for whom unsubsidized employment cannot be found.

The Administration's goal with regard to the work component was announced in your statement of May 2:

> Under this system, every family with children and a member able to work should have access to a job.

In order to prevent primary reliance upon cash assistance, subsidized jobs or training opportunities will be provided to the principal adult wage earners in families with children for whom an unsubsidized job cannot be found -- an estimated 1.1 to 1.4 million persons at 5.6 percent unemployment. These 1.1 to 1.4 million persons will include both those now receiving welfare and those who would be potential welfare recipients.

The present Comprehensive Employment and Training Act (CETA) system of approximately 450 prime sponsors includes Mayors and County Executives of jurisdictions of 100,000 or more population and Governors for jurisdictions in the balance of each state. This system, through which we operate the counter-cyclical public service jobs creation program and on-going employment and training activities, provides a structure for local administration of the jobs component of the reformed welfare system. The recent experience under CETA demonstrates that a flexible program of locally administered work and training activities can be quickly expanded to employ low-income job seekers. The 725,000 public service jobs funded under the recently enacted Economic Stimulus Appropriations Act will more than double the level of CETA public service jobs between the spring of 1977 and the spring of 1978. Most of the expansion will be targeted on persons in low-income families who have been unemployed for 15 weeks or more.

The work opportunities component of the welfare reform program is designed to allow local governments to develop a flexible mix of jobs, work experience, and training. Work and training opportunities will be developed which involve flexible working arrangements, including flexible hours and part-time work, which could accommodate the needs of single parents with young children. Federal guidelines will assure that work opportunities are appropriate for the population to be served.

In the existing CETA public service jobs programs, a variety of interesting and useful things are being done. CETA workers have been used in community improvement projects designed to develop or rehabilitate neighborhood facilities, parks, and recreation facilities. CETA workers have served as guards to provide services and deter crime in areas where older citizens live. CETA workers have been used in health screening programs, rodent and pest control, clean-up, and waste-recycling -- examples of work projects everyone agrees are needed and useful. Tab 1 examines the current experience and provides a potential list of activities that could employ 1.4 million persons. Table 1 is taken from that Tab.

B. Eligibility

Principal earners in nuclear families with children will be eligible for subsidized employment and training. Priority in filling jobs will go to those with the longest duration of job search. This program has differing requirements for four categories of persons:

(1) Childless couples and single individuals will be required to seek and accept unsubsidized work as a condition of receiving cash assistance. They will not, however, be provided public service jobs under this program (although they will be eligible for other CETA programs such as youth employment programs) but they will be eligible for intensive job search assistance to help them find private employment.

(2) The principal wage earner in a two-parent family with children will be required to seek and accept work. If private employment cannot be found for such persons, we will create a subsidized job or training opportunity. If work is refused, cash assistance will remain on the lower track level.

TABLE 1.

Major Categories of Job Creation:
Summary of Jobs and Slot Estimates

Category		Number of Slots	
		Our Estimate	Total Estimate
1.	Public Safety	150,000	155,500
2.	Recreation Facilities	200,000	221,500
3.	Facilities for the Handicapped	25,000	31,000
4.	Environmental Monitoring	50,000	59,300
5.	Child Care	150,000	168,000
6.	Waste Treatment and Recycling	25,000	32,500
7.	Clean Up and Pest/Insect Control	100,000	110,000
8.	Home Services for the Elderly and Ill	200,000	237,000
9.	Recreational Programs	125,000	141,200
10.	Weatherization	50,000	65,800
11.	Paraprofessionals in the Schools	150,000	160,000
12.	School Facilities Improvements	100,000	128,000
13.	Cultural Arts Activities	75,000	86,500
		1,400,000	1,599,300

(3) Single parents with children 14 years of age or older will also be required to seek and accept work. If private employment cannot be found, we will create a subsidized job or training opportunity. If work is refused, cash assistance will be reduced to the lower track level.

(4) Single parents with children under 14 years old will not be required to work, but if work is desired by such persons, we will help them find private employment. If a private job cannot be found, we will provide subsidized jobs or training opportunities for such individuals.

Every principal adult wage earner in a family with one or more children (18 years old or younger) will be eligible for a subsidized work and training opportunity. The principal adult wage earner is the adult in the family who earned the larger income during the preceding year, but the adult who worked the greater number of hours could qualify as the principal wage earner instead. In the case where the usual principal earner becomes disabled, another adult may apply for the work and training opportunity. The principal adult wage earner in a family with children would be eligible for a public service job whether or not that person was an applicant for cash assistance, had quit his/her last employment, was a student, or not employed as a result of a strike.

No one would be placed in a subsidized position until they had spent five weeks of intensive job search for unsubsidized employment. The jobs system would not provide any income to the recipient during the search period but the family would be eligible for cash assistance as described below. If no job is found during the intensive job search period, then the CETA system would be responsible for placing that individual in a subsidized work and training situation.

C. Relationship to Cash Assistance

A "required-to-work" individual, in a family with children, would be eligible for cash assistance benefits on the lower track level through the 8th week after applying for work assistance under this program (during this period most individuals would be receiving unemployment insurance benefits which would generally be higher than the allowable benefits on the lower work support track).

Local prime sponsors will be provided 130 percent of the unsupplemented wage costs in order to cover fringe benefits such as workers' compensation, social security (but not retirement), costs of supplies and equipment, and supervision, administration, and other support costs. Health insurance is not included in this calculation and will be addressed in the Administration's national health insurance proposal. In the interim, persons now eligible for Medicaid will continue in that program. Others in subsidized employment will receive health insurance benefits equal to those of the employing unit or CETA prime sponsor. Health insurance payments for these employees will be paid by the Federal government in addition to the 30 percent overhead.

F. Delivery System

At the Local Level

The local delivery system would build on the strengths of existing organizations and systems. The work projects and training courses should be locally determined because variations in circumstance make one uniform determination unworkable. These projects and courses should meet the needs established by local labor market conditions and the characteristics of local private employers.

There are three agencies who may be involved at the local level -- the cash assistance office, the Employment Service, and the CETA Prime Sponsors. Some individuals -- those not expected to work or those who have unsubsidized employment -- would go only to the cash assistance office. Some individuals -- those who are not eligible or do not want to apply for cash assistance -- might only go to the Employment Service and then to CETA. Each office would provide information forms and assistance to any applicant walking through the door. All of those wishing to obtain subsidized employment and training would proceed first to the Employment Service for intensive job search before going to CETA. All those expecting cash assistance would go to that office.

The division of responsibility at the local level would be as follows:

Cash Assistance Office. For intake, evaluation, payments and tracking of cash assistance on either the income support or earned income supplement track.

The Employment Service. The Employment Service is responsible for intake of those seeking work and for employability determination (the work test) for those nominally required to work or who are seeking entrance to the income support tier because of physical incapacity or other allowable reasons. The work test is a major responsibility, involving appeals and hearings in the contested cases.

The employment service would provide five weeks of assisted job search to all applicants. It would also be responsible for tracking participants in the CETA program for those expected to work or who have flipped up to the income support tier.

The employment service function will be performed by either the state-run employment service or CETA prime sponsors where it is agreed upon in the State plan. (See discussion below of the State plan.) The intent is to have a coordinated state and local delivery system in every labor market area while allowing maximum flexibility to tailor arrangements to the relative strengths of individual organizations.

The CETA Program. For creating subsidized jobs and/or training. The CETA prime sponsor is also responsible -- with State welfare and Employment Service assistance -- for developing local labor market plans, with targetted goals to serve participants and help them find jobs in the private sector.

At the State Level. For planning and coordination. State-wide planning among diverse agencies is a difficult proposition, but is essential for providing efficient service delivery.

The State is responsible for cash assistance offices, social services delivery and for the employment service.

Local prime sponsors are responsible for local labor market projections, training and public service job creation. The employment service and CETA prime sponsors are jointly responsible for private sector placement.

The State would be responsible under the reform for developing an integrated State plan for the operation of the system, including goals and targets for private sector placement and subsidized job creation based on analysis by local prime sponsors. It shall be the States' responsibility to assure that State agencies develop plans for cooperation at the local level. Numerical goals and targets shall be included in the plan to facilitate Federal review and monitoring.

The State Manpower Services Council -- in which prime sponsors have representation -- may prove a useful forum for plan integration.

<u>How the Work Component Would Work</u>

1. <u>Intake</u>. Applicants for cash assistance or work, including those required to work and those not so required, could enter the system at either HEW intake centers, or Employment Service offices.

2. <u>Job Search and Orientation</u>. The employment service would be responsible for assisting the applicant in locating an appropriate work or training situation.

An evaluation of the applicant's work history and experience, and skills or needs for training or skill development, as well as determination as to whether the applicant is employable would be made by the local employment service office. Comprehensive assistance would be provided, during the intensive job search period, with the aim of placing such individual in a regular unsubsidized private or public job. During this period, applicants would be provided job search counseling and orientation. Where needed, instruction in developing resumes or interviewing potential employers would be provided to the job applicant.

Although subsidized work and training will not be provided to childless couples and singles without children, they will be required to accept job search and orientation assistance in order to remain eligible for cash assistance benefits.

3. <u>Subsidized Work and Training</u>. State and local officials (CETA prime sponsors) would make the arrangements with public or private nonprofit agencies to create subsidized work and training situations for job applicants. The CETA system will also enter into arrangements with public and private institutions for carrying out training programs. If the individual does not find a job during the intensive job search period, then subsidized work and training would be arranged by the CETA prime sponsor. The intent of the five-week waiting period, from enrollment to placement in a subsidized job, is to provide every opportunity for placing the applicant in unsubsidized employment.

4. Placement. The employment service would have a continuing responsibility for contacting the individual placed in a subsidized work and training situation with respect to any appropriate non-subsidized private or public job which that individual might fill. In addition, those in subsidized work and training situations would be required to participate on a periodic basis in intensive job search activity and no less frequently than once a year.

5. Funding. Funding for subsidized work and training will be made directly to elected officials, similar to current CETA funding. For fiscal year 1981, there would be an authorization of appropriations of a specific sum of money sufficient to support not to exceed 1.4 million jobs. The Labor Department would advance funds on the basis of estimates of the number of individuals expected to participate in work and training opportunities over the year. Allocations would be adjusted quarterly on the basis of experience so that hiring of new enrollees would cease in all jurisdictions at approximately the same time if economic conditions were such that the demand for these jobs exceeds 1.4 million. Individual jurisdictions would not be allowed to hire in excess of their final allocations.

6. Secretary of Labor's Authority to Contract with Other Agencies. If any CETA prime sponsor fails to provide work and training opportunities for substantially all of the applicants for such opportunities (as indicated if a significant number of required-to-work persons were to "flip up" to the higher income support cash assistance track), the Secretary of Labor would be authorized to contract directly with public and private nonprofit agencies to provide such jobs. This "by-pass" authority would enable other providers of work and training to be utilized by the Secretary supplementary to the prime sponsor's role. But if a pattern or practice of failure to meet adequately such needs is found to be a continuing problem, the Secretary would designate another agency as prime sponsor for the area.

G. Job Development and Transition to Other Work

It is the aim of this program to move a person from Federally-subsidized jobs to other employment as soon as possible. In order to facilitate this objective, linkages with other programs and agencies are vital. On-the-job training programs involving close cooperation with the business community will be assisted through mechanisms that are utilized in other CETA programs (such as Title I, which authorizes a broad variety of training and work experience activities).

The Department of Labor has had experience with a number of approaches to increasing private sector involvement. These attempts have had only mixed success. The next few years, however, will be the first time that the decentralized CETA system has operated in an expanding labor market. A vigorous attempt to utilize the most effective mechanisms should, therefore, be more successful than ever before.

See Tab 2 for a description of past and potential private sector involvement.

H. Community Development

Linkages with programs of other agencies will be established, including the Economic Development programs under the Commerce Department, community action programs under the Community Services Administration, community development programs under HUD, rural development programs under the Agriculture Department, and several HEW programs. There should also be coordination with community groups, civil rights organizations, women's groups, and private employment counseling services.

Local programs which provide a substantial number of work and training opportunities under the work component of the welfare reform program should be allowed to submit applications to Federal agencies on a simplified and expedited basis. Projects requesting joint funding from various Federal assistance programs should have the benefit of the waiver of administrative requirements which impede such joint funding.

I. Preventing Substitution of Other Jobs

Replacement of existing jobs with work opportunities under this program is expected to be minimal. First, the work opportunities must accomplish work which is not already being done at any substantial level in the community or for which higher wage structures have been established. (Similar provisions are incorporated in the new Youth Employment legislation.) Second, jobs would be combined with training or work experience which would differentiate such work opportunities from regular jobs in the existing employment structures of public agencies. Third, many of the work opportunities would be provided in private nonprofit agencies, including United Fund and other community-based organizations, which generally do not have rigid personnel systems. Fourth, the limits on the subsidized wage rate will make substitution of subsidized workers for regular and municipal employees difficult because of prevailing wage requirements for established job categories.

Nevertheless, there should be sanctions to deter manipulation of the system which could develop over a period of time. Adequate statutory and administrative authority must be established to prevent, to the extent possible, substitution of special jobs funded under this program for jobs which otherwise would be maintained by State and local agencies. Enforcement of such provisions is difficult, but there must be enforcement machinery available so that labor organizations and other interested parties can appeal to the Secretary of Labor with the presentation of any evidence showing that jobs are being taken away from regular governmental employees in order to take advantage of Federally-subsidized funds for work.

J. Child Care and Other Services to Enhance Employability

The jobs component of the welfare reform program will make every effort to place many applicants in work situations where they will be providing child care services for children whose parents are themselves participating in work and training opportunities under this program, as well as for parents who are in regular non-subsidized work and training situations. Making special work slots available for child care programs would considerably reduce the costs of such child care. Funds for professional, administrative, and other supportive services, however, would be needed from other sources.

K. Special Provisions for Puerto Rico and Outlying Areas and for Native Americans

For Puerto Rico and other outlying areas, funding would be allocated for a specific number of work and training opportunities. There would not be an attempt to assure access to jobs for all eligible persons. The wage levels for the jobs would be set on the basis of a percentage of the average wage, not the Federal minimum wage. Similarly, specific funds would be allocated for Native American groups.

L. Experimental Projects

The Labor Department will be experimenting with jobs programs during the years until the program is fully implemented. A basic hypothesis to be tested is whether jobs and training slots can be created for the principal earner in each family with children. The Department will also seek to determine whether the estimate of 1.1 to 1.4 million job slots required to assure access to employment is correct. The Labor Department will not seek to establish the cash assistance program as part of these experimental projects. Therefore, although wages in the experimental programs will be kept close to those expected in the welfare reform program, some allowance will be made for the higher wage required in the absence of the cash supplements.

M. Transition from Current Counter Cyclical Programs

The Administration Economic Stimulus package increasing public service jobs under Titles II and VI of CETA to 725,000 jobs was proposed as a temporary measure, expected to phase down to the 50,000 slot level when unemployment declines. The replacement of the stimulus program with the jobs portion of welfare reform is not intended to foreclose the Administration's options with regard to counter-cyclical measures. The question of counter-cyclical contingency planning is being considered separately.

The transition period of two years is long enough to allow for turnover of existing job holders, who leave CETA positions after 8 months on average. Moreover, all those taking stimulus jobs have been informed that the jobs will only last for 12 months.

Finally, the jobs and job-holders in the new program will not differ greatly from those being hired in the stimulus program -- except for the wage. Even that difference may not be so great once the increase in the minimum wage and the value of the earned income supplement is taken into account.

IV. COSTS, IMPACT AND THE CASE FOR ADDITIONAL FUNDS

In this section, we discuss the cost of the detailed plan, describe the impact it will have on the States and on current recipients, and present the case for additional funds.

A. Introductory Note on the Numbers

Before doing so, however, it is important to understand the state of the numbers we will be using. Through our consultation with the States and our computer simulation -- which is based on a sample survey of actual family incomes throughout the United States and the experience from two income maintenance experiments in Denver and Seattle -- we have developed more sophisticated estimates of costs than have previously existed. We have discussed our computer models with a variety of experts, including those at the Congressional Budget Office.

Despite this relatively advanced computer model and despite our best efforts, the estimates are accurate only within a range. Since DoL, HEW and EOP staffs have only recently reached consensus on the details of the proposal, some of the numbers may improve in the next month or so as we double and triple-check our estimates.

At present, I am informed that our estimates on the costs of the cash program are within ten percent of accuracy, with the likelihood that we are in a six to eight percent range of accuracy. Given limited experience with the type of employment program we are proposing, we are, at the very best, close to ten percent of accuracy on the jobs side.

The area of greatest uncertainty relates to the impact on the states and on current recipients. Although it is hard to state a range, at present, I have asked that my staff make all their estimates conservative. If numbers change, the number of present recipients who are made "better off" by the proposal will probably increase.

B. Available Funds

The May 19 "no higher initial cost" proposal was based on the assumption that the following FY 78 funds were available for the welfare reform program:

Aid to Families with Dependent Children	$6.6 billion
Supplemental Security Income	5.7 billion
Food Stamps	5.0 billion
Unemployment Insurance beyond 26 weeks	1.3 billion
Housing Assistance	1.3 billion
Economic Stimulus Portion of CETA, Titles II and VI and WIN	5.9 billion
	$25.8 billion

We suggest that at least two items -- savings in HEW programs and wellhead tax revenues -- be added to the "zero net cost" base and that one former inclusion -- housing -- be at least partially reinstated.

First, the Department has estimated FY 81 savings of approximately $1.6 billion associated with our efforts to prevent, detect, and penalize fraud and abuse in HEW programs. About $1.1 billion of this amount is already included in the FY 79 zero base budget that we will submit to you shortly. The Department proposes to allocate the remaining $.5 billion of anticipated savings from fraud and abuse to welfare reform.

Second, beginning in 1980, wellhead tax revenues are expected to produce approximately $10 billion per year of which $1.5 billion is the pro-rata share of the low-income population. The cash assistance system we are proposing is demonstrably the fairest way to distribute such funds: it will cover the entire low-income population and will disburse payments to all who should receive it. Since the $1.5 billion that should be available in 1980 would presumably be expended in that year, I recommend that we include in the welfare reform base the $1.5 billion of 1981 wellhead tax rebates. Put into 1978 dollars, this yields approximately $1.3 billion.

Third, our May 19 proposal presumed the availability of $1.4 billion from reduced housing starts and imputation of housing benefits. Four hundred million dollars of that amount relating to housing starts is clearly no longer in the base following last week's decisions on housing.

- HUD Savings: We believe, and HUD agrees, that a clear case can be made for including in the welfare reform base approximately $550 million (in 1978 dollars) of HUD budget savings. These savings result because owners and renters of subsidized housing will receive more cash assistance, leading to increased rents that lower the subsidies that the Department of Housing and Urban Development must pay to local housing authorities and to other owners.

- Imputation: A remaining question is the imputation issue. There are strong arguments of equity for providing lower cash assistance benefits to subsidized housing occupants than to those who do not receive housing subsidies. While this can be cumbersome administratively, rough justice can be achieved by, for example, reducing the cash grants to residents of subsidized housing by 15 percent. We estimate that such a procedure would reduce the cash assistance payments to subsidized housing residents by between $350 million and $450 million (taking into account the consequent decrease in rental payments and higher subsidies incurred by HUD). Therefore, should you wish not to defer the imputation issue to the FY 79 budget deliberations, and should you decide in favor of imputation, we could add an additional $400 million to the welfare reform (in addition to the savings on which HUD and HEW have already agreed).

My best political judgment is that the misery is not worth the fight, as I told the New Coalition and the press last week. But some of your advisors do not agree with me. On the merits, most (except HUD) would impute something as a matter of equity.

C. Costs of the Proposal

The present costs of the detailed welfare reform proposals are;

Cash Assistance	$19.1 billion
Earned Income Tax Credit	1.6 billion
Employment and Training Program	8.2 billion
	$28.9 billion

The cost total differs from that in the May 19 memorandum for a number of reasons:

- Estimates of administrative costs in the cash assistance program have risen by $0.8 billion and those of the employment and training administration by $0.4 billion. Nonetheless, the total number of Federal, state and local employees required to administer welfare reform should decrease. See Tab J.

- The Earned Income Tax Credit has been included in the costs (and offsets) since we now propose a more extensive use of the EITC. (The present EITC, which we included in our May 19th proposal but did not list in our zero based pool of funds, costs $1.3 billion per year.)

- A variety of technical additions to costs in the cash program have been made based upon new data and the meetings with state and local officials.

The present offset costs are:

Aid to Families with Dependent Children	$ 6.6 billion**
Supplemental Security Income	5.7 billion
Food Stamps	5.0 billion
Unemployment Insurance beyond 26 weeks	1.3 billion
Earned Income Tax Credit	1.3 billion
Stimulus Portion of CETA Jobs and WIN	5.9 billion
	$25.8 billion

** The Department's recent child welfare initiative could reduce AFDC outlays by $.2 billion.

Thus, the net cost of the program at this point in the calculations is $3.1 billion -- Cost of $28.9 billion minus Offsets of $25.8 billion.

We believe that the following two additional offsets are appropriate and should be included in the sum of money available for welfare reform:

- Increases in social security contributions as a result of increased earnings on the part of participants in jobs component of the proposal -- $.3 billion.

- Decreases in Unemployment Insurance outlays resulting from reduced unemployment following implementation of the jobs program -- $.4 billion.

Taken together, these two factors reduce the net costs of the program from $3.1 billion to $2.4 billion.*

As noted above, there exist additional sources of funds that could be included in a "no higher initial cost" base. If you do not permit us to include some combination of these items, and if we must remain within the "no higher initial cost" constraint, then we will have no choice but to reduce benefit levels in the basic Federal cash program or reduce the number of jobs. In my judgment, either step could well doom the proposal since our benefit levels are about as low as we can push them and since an enlarged jobs program of at least 1.1 million is required to assure access to employment for all families with children.

<u>The impact of the addtional offsets are as follows:</u>

- Wellhead tax revenues of $1.3 billion (in 1978 dolars) would bring net costs to $1.1 billion.

- Savings within the HEW budget of $.4 billion (in 1978 dollars) would bring net costs to $.7 billion.

- Reduction in HUD expenditures of $.55 billion (in 1978 dollars) would bring net cost to $.15 billion.

- If imputation of housing benefits is permitted, net costs would be approximately $-.25 billion.

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* Note that no allowance has been made in these costs for error and fraud in the program, although some exists in even the most efficiently administered transfer programs.

- In addition, we believe that the computer is overestimating the number of households which are defined as disabled and which are therefore eligible for relatively generous benefits. If this suspicion is confirmed, costs will decline another $.3 billion and thus, our net initial costs would be $-.6 billion.

In sum, we can remain within, or below the "no higher initial cost" constraint with the judicious use of a set of funding options that offset the direct costs of the welfare program.

I would note at this point that the expanded EITC, which we believe to be a vital part of the proposal, will have additional costs on the order of $3 billion to $4 billion in the income range above the tax entry point, and must be seen as an indirect cost of our welfare proposal.

D. Effects of the Proposal

The proposal will substantially change benefits for recipients and fiscal burdens on state and local governments. These two impacts are determined jointly by decisions States make regarding supplementation. How much and in what manner a State elects to supplement the basic Federal grant will affect both the amount of fiscal relief it receives and the numbers of recipients who are made better-off or worse-off.

1. Impact on Recipients

a. The Rolls

Under the detailed plan presented here, we estimate that about 32 million persons in nearly 12 million families would actually receive Federal benefits. This is equivalent to the 30 million that now receive AFDC, SSI, Food Stamps, and General Assistance at some time during the year. In terms of those eligible for Federal benefits, the comparable figures are 37 million under the reform proposal, compared with 40 million eligible for current AFDC, SSI, and the modified Food Stamp Program now before Congress.

In sum, the number of people eligible for cash assistance will decline, but because of the greater equity and simplicity of the proposed reform, the number of people receiving assistance may rise slightly.

b. Betteroffness and Worseoffness

The proposal substantially redistributes cash assistance benefits. Some recipients' benefits are increased; others are decreased. These increases and decreases result because the new program differs from those it replaces in important ways (e.g., it measures need over a longer period of time and on the basis of a broader concept of income). They also result because we are providing federal benefits for new classes of people (e.g., two-parent families) and fiscal relief.

In measuring "betteroffness" and "worseoffness," we have made the follow assumptions:

Definitions

We decided that betteroffness and worseoffness can be meaningfully evaluated only if negligible changes in a recipient's benefits are ignored. We have, therefore, excluded from consideration changes (in either direction) amounting to less than $100 a year (or roughly $8.00 a month). We believe that a somewhat higher "de minimus" threshold could be justified -- say, $15 a month. If this standard were employed, substantially fewer current recipients would be classified as being made worse off by the reform program (perhaps as many as one million).

State Supplementation:

The estimates that follow are based on the assumption that the States supplement the Federal benefit only in the congruent fashion discussed earlier in this memorandum. We assume that States would supplement up to a basic benefit equivalent to the AFDC payment plus the bonus value of Food Stamps in that State.*

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* By this reckoning, 38 States and the District of Columbia would adopt congruent supplements during the first year. The following States would not supplement during the first year: Alabama, Arizona, Arkansas, Florida, Georgia, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, and Texas. After five years, eight additional states would no longer need to provide congruent supplements inorder to maintain benefits. These States are: Indiana, Kentucky, Maryland, Montana, Nevada, New Mexico, Ohio, and West Virginia.

As discussed below, both worseoffness and fiscal relief will diminish to the extent that states go beyond congruent supplements and attempt to grandfather existing SSI and/or existing AFDC recipients.

Betteroffness

AFDC: The benefits of 6.3 million AFDC recipients (out of a total of 15 million recipients in 1975) will increase by \$1.9 billion -- or an average of \$300 per recipient. Nearly two-thirds (64%) of those AFDC recipients who gain had pre-reform incomes below the poverty line, and 27% of them will move above the poverty line as a result.

Some AFDC recipients will have higher benefits because they live in one of the 12 States where the new Federal benefit exceeds existing AFDC plus Food Stamp benefit levels. Other current AFDC recipients would benefit because they will take advantage of increased job opportunities in the public service employment program.

SSI: The benefits of roughly 2 million SSI recipients will increase by approximately \$1 billion -- or an average of \$1,000 per recipient. Of this group 77% had pre-reform incomes below the poverty line. Some SSI recipients gain because our proposal would provide a basic benefit of \$1,100 to their spouses, who are now ineligible for any cash benefits even if they have no earnings. In addition, the benefits of those SSI recipients who do not now participate in the Food Stamp program will be increased because the new Federal benefit includes the cashed-out value of Food Stamps.

Others; The benefits of another 8.7 million recipients (some of whom now receive Food Stamps and/or General Assistance) will increase by some \$4-5 billion -- or an average of \$500 per recipient. This betteroffness occurs principally in two-parent families. About half of this increase in benefits will be provided through the Cash Assistance program and half will be paid out in public service wages. Of this group 52% had pre-reform incomes below the poverty income line, and 44% of them will move above the poverty line.

Summary

While substantial numbers of recipients in all categories will be made better off by the program, the biggest share of this betteroffness is among recipients who now are not receiving benefits at all or are receiving only Food Stamps or General Assistance. This includes the bulk of the working poor who deserve higher benefits and who ought to have them if we are going to ensure adequate work incentives in our welfare system. This betteroffness is one of the major accomplishments of welfare reform -- by aiding two parent families now largely excluded from cash assistance, welfare reform will remove the major present incentive for family dissolution.

Worseoffness

AFDC: We estimate that the benefits of 6.5 million current AFDC recipients will decrease by $2.7 billion -- an average of $400 per recipient.* Of this group, 75% had pre-reform incomes above the poverty line. 900,000 will fall below this poverty line as a result. The major reasons for this worseoffness are: (1) the broader filing unit which will eliminate eligibility or reduce benefits for some recipients (e.g., AFDC mother and child who live with nonpoor parents); (2) the work expense deductions and disregards in the existing AFDC program; (3) individual State variations (e.g., special needs and rental allowances) in the existing AFDC program.

SSI: Approximately 100-200,000 existing SSI recipients would have their Federal benefits reduced by approximately $100-$300 million because of the elimination of a number of special rules in the current program. Our proposal to grandfather the Federal benefit of existing recipients, discussed below, would eliminate this worseoffness.

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*We believe that this estimate, while based on the best available data, is probably too high -- perhaps because it reflects an assumption that more AFDC families will end up on the "required to work" tier than will actually be the case (e.g., families with children over 18 who are still in school). When more accurate estimates are available, the cost of the program may increase as this worseoffness decreases. It should also be noted that a number of proposed changes in our program, discussed below, would reduce AFDC worseoffness.

Some additional worseoffness occurs according to our estimates in states that now supplement only a small fraction of SSI recipients and that we assume would not provide congruent supplements. As many as 550,000 SSI recipients may fall in this category and their worseoffness may be as great as $800 million.

Others: We estimate that the benefits of 2.5 million recipients of Food Stamps and General Assistance will be reduced by $700 million -- an average of $280 per recipient. Sixty-four percent of these recipients had pre-reform incomes above the poverty line. 600,000 would fall below the poverty line as a result. Part of the worseoffness in this group will occur whether welfare is reformed or not. Reforms in food stamps now working their way through Congress will reduce the benefits of many recipients with incomes over the poverty line. In addition, however, we are not assuming State supplements to general assistance recipients even in those states where general assistance exceeds the basic federal benefits. Finally, the six-month retrospective accountable period will reduce benefits for filing units with relatively high but fluctuating incomes, who, under the current system, can claim benefits during brief periods of low-income.

Summary: The total amount of worseoffness that results from the new program is concentrated among AFDC recipients, who are most affected by changes in eligibility rules and elimination of the patchwork of special State provisions. This worseoffness will be reduced, however, if certain changes in the program which we recommend below are adopted. Moreover, the new Emergency Needs program will enable the States to reduce worseoffness further.

Finally, it should be emphasized that some worseoffness among some recipients is inevitable in any welfare reform proposal that seeks to redistribute a limited amount of money in the most equitable and efficient fashion. Because the existing welter of Federal and State programs has resulted in sometimes indefensible, anomalous overpayments of some recipients at the expense of others who are more deserving, some worseoffness is not a surprising result of reform.

For estimates of betteroffness and worseoffness in selected States see Tab K.

Jobs Better-offness and Worse-offness:

All of the jobs under the welfare reform proposal provide opportunities for additional income. The new slots do not replace any existing CETA jobs if the basic assumption is that the CETA slots funded under Titles II and VI are part of a stimulus package scheduled to be phased out as unemployment declines. Seen in this light, all of the new PSE participants are betteroff because of the presence of the work opportunities. The breakdown of slots by State appears in the table on the following page.

If we instead look at the new PSE slots as replacing CETA jobs funded as part of the stimulus package -- as the unions and mayors certainly will -- a different picture emerges. Although the welfare reform proposal would add substantially to the total number of PSE jobs and thus, to the number of participants aided, the characteristics and home States of the jobholders will change somewhat. All of the new PSE jobs will go to low wage primary earners in families with children. Those who lose because of the shift from CETA slots to new subsidized jobs slots will be workers with better unsubsidized wage opportunties and on balance, the gainers far outnumber the losers both because of the increased expenditures on the jobs component and because the jobs are spread more equitably over a larger number of workers.

The distribution of Federal expenditures on jobs by State will also change with the shift from CETA stimulus jobs to the new PSE jobs. The table (Changes and Distribution of CETA Resources) shows the Federal expenditure allocations for each State for the stimulus package. Also shown in the table are the Federal expenditures under the new jobs component of the welfare reform. Only five States -- California, Connecticut, Massachusetts, New Jersey and New York -- receive smaller Federal expenditure allocations, even if the Federal government does not share in the supplementation of the PSE wage. Federal expenditures in most States will rise sharply. In the four States in which Federal jobs expenditures decline, the number of workers filling subsidized PSE jobs will probably remain at levels expected under the current CETA expansion. However, the wages paid to these workers will decline.

CHANGES IN DISTRIBUTION OF CETA RESOURCES

	Expenditures under CETA Titles II and VI (millions of dollars)		Number of subsidized job slots per year (thousands)	Direct Federal Expenditures on subsidized job slots (millions of dollars)	Change in Federal jobs Expenditures from CETA Stimulus to Welfare Reform	Total Supplements to wages (millions of dollars)
	1976	1978*				
Alabama	26.3	69.4	19.1	136.6	67.2	0
Alaska	6.8	9.9	0.7	5.3	- 4.6	0.4
Arizona	18.8	78.9	13.9	99.9	21.0	0
Arkansas	19.7	47.1	16.9	120.8	73.7	0
California	261.1	696.3	88.7	647.9	- 48.4	50.7
Colorado	10.0	47.0	10.3	73.6	26.6	1.6
Connecticut	30.7	108.8	11.7	84.1	- 24.7	6.7
Delaware	5.9	17.6	3.7	26.3	8.7	1.2
D.C.	?	22.2	2.9	21.0	- 1.2	1.7
Florida	81.7	260.0	50.6	362.6	102.6	0
Georgia	48.2	134.9	38.1	273.2	138.2	0
Hawaii	13.2	28.9	3.7	26.3	- 2.6	2.1
Idaho	7.6	15.8	5.1	36.7	20.9	2.9
Illinois	359.1	239.4	41.8	287.7	48.3	23.9
Indiana	51.5	121.0	24.9	175.2	54.1	0
Iowa	12.5	23.8	16.1	115.6	91.8	9.2
Kansas	7.0	20.2	10.3	73.6	53.4	5.9
Kentucky	20.8	63.5	30.1	215.4	151.9	0
Louisiana	43.6	68.7	28.6	205.0	136.3	0
Maine	11.5	35.0	7.3	52.5	17.5	1.4
Maryland	25.9	88.8	12.5	89.4	0.6	0
Massachusetts	76.3	224.2	24.9	178.7	- 45.5	14.2
Michigan	152.4	308.1	54.2	388.9	80.8	31.0
Minnesota	39.0	83.0	19.8	141.8	58.8	11.3
Mississippi	15.3	42.5	24.9	178.6	136.1	0
Missouri	27.6	88.4	22.0	157.7	69.3	0
Montana	9.0	16.3	4.4	31.6	15.3	0
Nebraska	7.0	12.7	7.3	52.5	39.8	2.6
Nevada	7.1	21.6	2.9	21.0	- 0.6	0
New Hampshire	6.2	19.9	3.7	26.3	6.4	2.1
New Jersey	85.9	268.8	29.3	210.2	- 58.6	16.8
New Mexico	11.3	32.0	7.3	52.5	20.5	0
New York	205.5	606.3	79.2	567.5	- 38.8	45.3
North Carolina	66.3	108.8	38.8	278.5	169.7	0

North Dakota	5.7	4.6	3.7	26.2	21.6	2.1
Ohio	91.5	301.0	47.6	341.5	40.5	0
Oklahoma	9.4	39.6	19.1	136.6	97.0	0.5
Oregon	27.3	88.0	13.2	94.6	- 6.6	7.5
Pennsylvania	99.7	308.2	52.8	378.4	70.2	30.2
Rhode Island	16.4	29.4	4.4	31.6	2.2	2.5
South Carolina	31.1	64.4	16.1	115.6	51.2	0
South Dakota	1.9	4.0	6.6	47.3	43.3	3.7
Tennessee	32.4	76.1	31.5	226.0	149.9	0
Texas	51.6	180.0	68.9	494.0	314.0	0
Utah	8.5	22.6	5.9	42.0	19.4	3.4
Vermont	7.7	15.2	4.4	31.6	16.4	2.5
Virginia	31.6	90.1	21.12	173.4	83.3	12.7
Washington	54.2	109.0	15.4	110.4	1.4	8.8
West Virginia	15.8	41.0	8.1	57.8	16.8	0
Wisconsin	31.3	93.2	22.7	163.0	69.8	13.0
Wyoming	1.0	3.3	2.2	15.8	12.5	0.1
	2287.9	5500.0	1074.6	7900.0	2400.0	318.0

'erage During 1977-78 Stimulus Period

E. Fiscal Relief

State and local governments will receive fiscal relief as a result of welfare reform to the extent that they spend less for welfare after reform than they spent before reform. Under our basic proposal, the amount each State spends for supplementation and emergency assistance is left to its discretion. Therefore, we can only estimate fiscal relief subject to certain assumptions as to what the States will do.

In the analysis that follows, we successively project the amount of fiscal relief States will receive under each of the following assumptions:

a. The States adopt congruent supplements as defined in our plan, at current benefit levels.

b. The States adopt congruent supplements and in addition establish non-congruent supplements to grandfather SSI recipients.

c. The States adopt congruent supplements and in addition establish non-congruent supplements to grandfather existing SSI and AFDC recipients.

In calculating fiscal relief, we take into account the new basic Federal benefit, Federal subsidization of congruent supplements, and the new Federal Emergency Assistance Program.

The following analysis will be for Calendar Year 1975. We hope soon to have adjusted these data to 1978, but this procedure is difficult, if not treacherous, in part because it involves making State-by-State estimates of AFDC, SSI, and General Assistance costs in 1978. Using Calendar Year 1975 for these estimates amounts to asking what the fiscal impact of our proposal would have been had it been in effect in 1975.

1. Background Facts

Existing State Outlays

The following table reports State and local costs of the three major cash assistance programs, AFDC, SSI, and General Assistance in 1975:

TABLE

STATE AND LOCAL COSTS FOR AFDC, SSI, AND GENERAL ASSISTANCE

(1975)*

	State and Local Costs	State Costs	Local Costs
AFDC	$4.35 billion	$3.5 billion	$ .85 billion
SSI	1.60 billion	1.3 billion	.30 billion
GA	1.35 billion	1.0 billion	.35 billion
Total	$7.3 billion	$5.8 billion	$1.5 billion

* These data are from the 1975 Census Survey on which all of the other costs are based. They do not reflect exactly the actual costs of these programs in 1975.

Existing Local Outlays: Local governments in California and New York account for nearly 80 percent of total local government outlays for AFDC, SSI, and General Assistance. Of New York State's nearly $1.4 billion of income assistance expenditures in 1975, $.6 billion was accounted for by county expenditures. Of that amount, $.45 billion -- almost one-third of the total State and local expenditures -- is accounted for by New York City.

Dominance of Federal Benefit; Another important determinant of fiscal relief is the relationship of the Federal benefit under the new program to total existing benefits in the States. As noted above, the basic Federal payment to a family of four with no other income would exceed the combined Federal plus State AFDC and Food Stamp benefits in 12 States, and in 20 States after five years. That same Federal benefit would exceed the Federal share of those benefit levels in all but two States, Hawaii and Vermont, and all States after 5 years. Because we propose to share in the costs of congruent State supplements as well, the total Federal share of the basic benefit level will be higher in all States.

2. Projections of Fiscal Relief

The following table presents our best current estimate of the fiscal relief implications of the proposal. Data are presented both for the United States as a whole and for each individual State. The first column displays pre-reform State costs of AFDC, SSI, and General Assistance. The second column displays fiscal relief on the presumption that States adopt congruent supplements of Federal cash benefits and PSE wages. The third column displays fiscal relief assuming that the States in addition decide to grandfather all current SSI recipients. The fourth column is based on the assumption that States also grandfather AFDC recipients. The last column adds emergency assistance to the fiscal relief estimate shown in column four.

FISCAL RELIEF

	(1) Pre-Reform Cost: AFDC, SSI, GA	(2) Fiscal Relief if States Provide Congruent Cash and Wage Supplements	(3) Fiscal Relief if States Provide Congruent Cash and Supplements and Grandfather SSI	(4) Fiscal Relief if States Provide Congruent Cash and Wage Supplements, and Grandfather SSI and AFDC	(5) Column (4) Plus State's Share of Emergency Assistance
Alabama	45	45.0	28.7	16.2	20.5
Alaska	14	8.2	6.1	0.6	1.1
Arizona	25	25	18.9	10.9	16
Arkansas	30	30	20.2	10.2	17.8
California	1,602	863.7	691.8	328.3	379
Colorado	55	31.0	25.2	-0.3	3.5
Connecticut	93	28.9	23.1	-13.9	-9.1
Delaware	14	9.4	8.2	2.2	3.3
District of Columbia	61	51.9	49.1	25.6	27.9
Florida	59	59.0	36.9	11.9	34.2
Georgia	59	59.0	41.2	7.2	26.1
Hawaii	48	31.5	29.3	-0.2	1.4
Idaho	9	-4.5	-5.7	-9.7	-8.3
Illinois	519	389.0	355.5	146.0	173.4
Indiana	55	39.9	32.2	-1.3	6.7
Iowa	47	20.0	14.8	-6.7	-2.4
Kansas	36	16.5	15.3	-6.7	-3.4
Kentucky	63	51.4	33.6	-0.4	10.7
Louisiana	42	42.0	24.5	-7.0	7.0
Maine	24	14.2	9.9	-3.1	-.7
Maryland	93	81.9	69.6	25.6	33
Massachusetts	411	217.7	181.0	98.5	108.9
Michigan	464	284.2	251.9	53.4	73.2
Minnesota	91	46.3	40.2	22.8	28.4
Mississippi	18	18.0	6.0	-6.5	5.6
Missouri	98	98.0	76.5	32.5	44.2

	(1) Pre-Reform Cost: AFDC, SSI, GA	(2) Fiscal Relief if States Provide Congruent Cash and Wage Supplements	(3) Fiscal Relief if States Provide Congruent Cash and Supplements and Grandfather SSI	(4) Fiscal Relief if States Provide Congruent Cash and Wage Supplements, and Grandfather SSI and AFDC	(5) Column (4) Plus State's Share of Emergency Assistance
Montana	7	2.0	0.5	-3.0	-1.6
Nebraska	19	-2.0	-6.0	-15.5	12.8
Nevada	9	5.5	4.0	0.5	1.5
New Hampshire	14	5.6	4.1	-1.4	-.2
New Jersey	274	174.2	152.4	39.9	54.2
New Mexico	18	18.0	15.2	8.7	12.4
New York	1,347	858.8	721.4	317.9	366.1
North Carolina	68	68.0	48.9	9.9	16.9
North Dakota	6	-0.7	-1.9	-5.9	-4.9
Ohio	238	192.6	166.2	45.2	46.2
Oklahoma	66*	32.9	16.6	0.1	72
Oregon	59	24.2	18.4	9.1	13
Pennsylvania	500	290.1	240.6	79.1	106.1
Rhode Island	37	22.2	18.2	3.7	5.5
South Carolina	20	20.0	10.8	-2.2	7.1
South Dakota	7	-2.2	-3.4	-7.4	-6.0
Tennessee	33*	33.0	18.2	-8.8	4.8
Texas	93*	93.0	60.4	19.4	50.3
Utah	16	4.4	1.9	-5.1	3.3
Vermont	15	4.3	1.5	-3.0	1.9
Virginia	93	46.8	35.4	-6.1	4.2
Washington	111	60	51.7	20.2	26.1
West Virginia	22	10.9	6.3	-12.2	-6.6
Wisconsin	147	58.4	41.2	-15.8	-8.9
Wyoming	3	1.2	0.6	-0.4	.1
U.S. Total	7,297	4580.4	3709.6	1138.6	1651.5

*State and local officials from these and other states have informed us that the General Assistance for their state appears too high.

The highlights of the fiscal relief table may be summarized as follows:

- Congruent Supplements Only.

  Assuming that the States only provide congruent cash supplements and PSE wage supplements yields an aggregate national fiscal relief total of $4.6 billion. The high-payment, high-caseload States such as New York and California would receive substantial fiscal relief ($859 million for New York, $864 million for California). The low-benefit, smaller caseload States, principally but not exclusively in the South, would receive fiscal relief in smaller amounts albeit amounts still frequently significant in light of their smaller overall budgets.

- SSI Grandfathering.

  We estimate that an SSI grandfather would reduce national fiscal relief by about $870 million to $3.7 billion. These reductions in fiscal relief are experienced by all States. New York, California, and other high-benefit States will still receive substantial fiscal relief ($721 million for New York, $692 million for California). However, 4 states would experience a total of $19 million in increased fiscal burden; we propose to hold these states harmless at a federal cost of $19 million.

- SSI and AFDC Grandfather.

  The incremental cost of an AFDC grandfather would be about $2.6 billion. Many states, especially those whose benefits now only slightly exceed the proposed federal basic benefit, probably would not grandfather recipients. If the States opted for a noncongruent supplement aggregate fiscal relief would be reduced to about $1.1 billion. As the fourth column of the table shows, many States would as a result experience fiscal burdens -- that is, they would be spending more after adoption of the new program, with the AFDC and SSI grandfathering, than they do now. California, Massachusetts, and New York would continue to experience modest fiscal relief. A hold harmless for states whose outlays would rise would cost $143 million.

Changes in Benefits By Region

The Welfare reform plan is almost neutral among the four major census regions of the country.

The table below shows the distribution of federal cash assistance under AFDC, SSI, and Food Stamps among the four Census regions, the distribution of cash assistance if the proposed program had been in existence in 1975, and the distribution of cash assistance under the proposed cash assistance and jobs programs. All of the statistics in the table would change if the figures were adjusted for the change in unemployment between 1975 and 1978, the year to which all other statistics in this memorandum refer.

FLOW OF FEDERAL DOLLARS BY REGION

	Pre-Reform Federal Expenditures on AFDC, SSI, and Food Stamps 1/	Total Federal Cash Assistance under proposed system 2/	Total Federal Assistance Cash and Public Service Employment under proposed system 2/
Northeast	22.8%	23.1%	22.4%
North Central	22.9%	22.4%	23.2%
South	37.2%	37.5%	37.6%
West	17.2%	17.0%	16.8%
U.S. Total	100 %	100 %	100 %

1/ FY 75

2/ Assuming states supplement to present benefit levels

As is apparent, the distribution is almost identical in the three columns. It indicates that there is almost no change in federal expenditures among the regions. All differences are well within the margin of error for the simulations.

We shall be preparing similar estimates state-by-state. But in the period since agreement has been reached on the proposal we have not had time to prepare this information. When it is available, we shall transmit it to you.

Increase in Fiscal Relief Over Time

It is important to bear in mind that our proposal would increase the real value of the Federal benefit by two percentage points per year for a five-year period. This provision would increase both Federal costs by about $3 billion and fiscal relief by between $.5 and $1.0 billion. We are currently analyzing the relationship between this phasing up of Federal benefits and a provision that would ensure the continuation of a fraction of current State and local expenditures.

Local Fiscal Relief

As noted above, we recognize the commitment to give priority to fiscal relief to local governmental entities. Accordingly, our proposal would require States to pass on any fiscal relief to local governments in proportion to the share of State welfare costs borne by local governments.

We have concluded that is is impractical to go further by requiring the States to pass on all or a disproportionate share of fiscal relief to local governments. The States have made clear that they would resist such an unusual intrusion into their relationship with local governments. Moreover, they could (and undoubtedly would) circumvent any such requirement by imposing additional financial burdens on local governments through their budget process.

Maintenance of Effort

The proposal as detailed here does not include a provision that would require States to continue some fraction of their pre-reform expenditures. We are examining such a "maintenance of effort" provision.

F. Proposed Changes in the Plan: The Case for Additional Funds

1. Tax System: Enlarged Earned Income Tax Credit (EITC)
   As we have emphasized, a revised EITC is a vital part of our welfare reform proposal. We believe strongly that the success of the welfare reform proposal requires that the EITC be modified to reduce work-disincentives in the \$4000-\$8000 income range by allowing the EITC to increase until the entry point of the positive tax system. It would then phase out at 15%.

   Additional Costs: The cost of the present EITC, which largely benefits households who will be eligible for cash assistance, is \$1.3 billion. The additional costs of the revised EITC for those receiving cash assistance will be approximately \$.3 billion. We believe this additional cost is properly "charged" to welfare reform.

   The revised EITC would also reduce revenue from the positive tax system by approximately \$3 to \$4 billion. The benefits of this expanded EITC will be concentrated on lower middle income working families. We believe this offset against revenues should be counted not as a cost of welfare reform, but as a highly desirable part of tax reform.

2. Budget Process: The Jobs Program--Federal Sharing in State Supplementation of PSE Wages and the Additional Pay for Work Leaders
   According to the basic proposal, States are required to pay for both a) the full cost of the 10% wage supplement (\$320 million) and b) the additional 25 percent wage premium paid to work leaders in 15 percent of the jobs (\$300 million).

   We propose that the Federal government pay 50 percent of the cost of the 10 percent State wage supplementation at an estimated cost of \$160 million. Federal sharing of wage supplementation to this extent would occur in 30 States. Federal sharing is desirable partly because the fiscal relief it provides will go mostly to those States with the highest fiscal burdens of welfare.

Federal sharing is also important for sustaining the work emphasis of the overall proposal. Without Federal sharing of wage supplementation, States will lose more financially if those who are required to work take a PSE job than if they remain unemployed and qualify for cash assistance benefits offered under the income support tier. Typically in a high benefit State, a family of four in the required to work category will qualify for a benefit of $4,700 if no job is available. The State will contribute $125 of this sum. In contrast, in such a State the wage supplement may cost the State $550. On the average, to pay for jobs for work leaders, there will be an additional cost of $150 per PSE slot.

While the State will have little incentive to place an earner from a required to work family in a public job, there will be strong incentive to place the head of a family in the not required to work category in a public job. For example, in a State with a maximum benefit of $6,000, the cost to the State of a family of four receiving this benefit is $1,050.

Cost sharing of wage supplements will mitigate the incentives for States to place those from single-parent families but not from two-parent families in PSE jobs.

<u>Total Cost</u> = $160 million for 50 percent cost sharing of the 10 percent supplementation of wages

or

= $320 million for paying entire cost of 10 percent State supplementation of wages

= an additional $300 million to pay for the wage premiums for work leaders

3. <u>Budget Process: The Cash Assistance Program</u>

a. <u>Children Residing with Legally Non-Responsible Relatives</u>:

Problem: The filing unit contained in the May 19 proposal would have precluded benefits on behalf of many "informal" foster children who live with relatives such as grandparents, aunts, or uncles who are not legally responsible for the child -- because of the income or resources of such relatives. Both State representatives and child welfare organizations are legitimately concerned with this result because it would tend to discourage such informal foster arrangements and increase the number of children placed in institutions.

Proposal: We are convinced that it is essential to make the small and relatively inexpensive change in our proposal to permit continuation of the current practice under which children living with relatives who are not legally responsible for the child are permitted to file for benefits regardless of the relative's income. This proposal will slightly reduce worse-offness among AFDC recipients, and will also provide some fiscal relief to States which might have felt compelled under our original proposal to provide their own benefits to such children.

Additional Cost: $160-$200 million

b. Grandfathering of Existing SSI Recipients as to Federal Benefits

Problem: The modified broad filing unit that we adopted following your comments last May (allowing the aged, blind, and disabled to file separately) took care of most of the "grandfathering" problem for Federal benefits to existing SSI recipients. Under current law, however, SSI recipients who reside with a non-SSI recipient receive certain advantages that would not, and should not, in our view, be available under our proposal. (For example, the current SSI system does not require husbands and wives to pool all their income for purposes of calculating eligibility and benefits.) While we are convinced that these special advantages should not be preserved in the new law, we are also reluctant to disadvantage any existing SSI beneficiary who has justifiably relied on current benefits.

Proposal: Existing SSI recipients should have the Federal portion of their SSI benefits "grandfathered" -- i.e., held at current levels pending any change in circumstances.

Additional Cost: $100-$300 million

c. Adopt a Narrower "Family-based" Filing Unit

Problem: Despite modification in the initial broad filing unit to allow separate filing status for the aged, blind, and disabled, both State officials and the social welfare community vociferously criticized the modified filing unit proposal.

- o It disadvantages many existing AFDC beneficiaries and in so doing creates incentives for family break-ups. For example, under the existing AFDC program, a teenage mother who lives with her parents may file for AFDC benefits with her child regardless of her parents' income and resources.Such payments would not be permitted under our current proposal unless the parents were already eligible for cash assistance. Some believe that administration of a family-based filing unit would be simpler; because fewer filing unit changes would occur there would be less need to provide separate filing status for household members who are economically independent of others in the household. (However, the total number of filing units would increase.)

- o Because the States favor a narrower, family-based filing unit, our adoption of such a filing unit would further encourage the States to adopt congruent State supplements and thus facilitate uniform administration of the welfare program.

- o A family-based filing unit is used in the positive tax system, and our shift to such a unit would facilitate coordination of the cash assistance program with the EITC.

Proposal: We propose a filing unit consisting of the nuclear family -- parents and minor children residing in the same household. Other unmarried adults (except aged, blind, or disabled persons) living in the household of the nuclear family would also be included in the filing unit. We have become convinced that this change to a narrower family-based filing unit makes sense programmatically and politically. It will promote uniformity and simplicity by encouraging parallel State supplementation and by fitting more closely with the filing unit used in the income tax system. It will also reduce the amount of worse-offness in the AFDC population by approximately $500 million (900,000 recipients). It will also meet the concerns of those who fear that our program will encourage the split-up of some extended AFDC families.

Additional Cost: $.6-1.0 billion

d. Increased Emergency Needs Program

Problem: The May 19th proposal included $600 million for grants to the States for Emergency Needs programs. How this money would be spent would be left to State discretion, but it was assumed that the States would continue to use it to meet emergency situations (e.g., fires, appliance failures), as well as situations where the States feel need exists but where Federal benefits under the new program would be unavailable (e.g., because of the new retrospective accountable period or the assets test). Many State and local officials told us that the $600 million figure is grossly inadequate, particularly in light of the impact of the accountable period, continued pressure to provide for "special needs," and "covering" delays in Federal payments. They are deeply fearful that welfare reform will somehow mouse-trap them into higher costs and see inadequate Federal support for emergency assistance as one of the avenues through which this could occur.

Proposal: We propose to increase the amount of the Federal grant to the States for emergency needs to $1 billion. The States convinced us that the original amount allocated was inadequate. We also believe increased funds in this area are very well spent, since every dollar will either reduce recipient worse-offness or increase fiscal relief to the States. These Federal funds will be used in situations where States and local governments would otherwise have had to resort to their own funds or allow perceived needs go unmet.

Additional Cost: $.4 billion

e. Deduction for Child Care Expenses
Problem: The current AFDC program reimburses recipients for day care expenses. The current reform proposal, however, allows for no such reimbursement and consequently would reduce benefits for some workers with day care expenses. Because we will require single parents with no child under 14 to work, and because we continue to want to encourage single parents of younger children and secondary earners in two-parent families to work, we believe that a child care deduction should be allowed.

Proposal: We propose a standard child care deduction of 20 percent of earnings up to a maximum of $134 per month for single parents or the lesser earner in a two-parent family receiving cash assistance.

Additional Cost: $.5-.8 billion

We have considered but decided not to recommend a number of additional changes in the Cash Assistance Program. You should be aware of them, however.

- Reducing the retrospective accountable period to 3 months or 1 month. Labor unions and welfare recipient groups will press to reduce the length of the accountable period so that sudden drops in income lead to increased benefits or more prompt eligibility for benefits. A shift to a 3 month accountable period would cost $1 billion and a shift to a 1 month accountable period would cost $2 billion. We do not recommend either change, because we believe that the 6-month accountable period is the most effective in targeting assistance to those who need it most.

- Grandfathering AFDC recipients. If the proposed filing unit change discussed above is adopted, some of the worse-offness of AFDC recipients will be reduced. Substantial numbers of AFDC recipients, however, will continue to be worse off, and there will be pressures to grandfather them as well as SSI recipients. This would be quite costly, however ($2.2 billion under our current filing unit definition, or $1.8 billion under the proposed family filing unit) and would create substantial administrative difficulties.

- Termination of the one-third reduction in benefits for SSI recipients residing in a larger household. Under current law, the benefit of an SSI recipient is reduced one-third if the beneficiary lives with another family unit (to take into account shared shelter cost) unless the recipient demonstrates "separate economic status." This provision is difficult to administer, and its elimination would further liberalize SSI benefits. It would be costly, however ($1.2 billion), and since we are grandfathering SSI recipients, we believe that scarce available funds can be used better for the changes recommended above.

G. Recommendations

1. Additional Monies That Should Be Included In The Basic Funds For Welfare Reform.

a. HEW savings from program to combat fraud and abuse ($.4 billion)

________ Approve

________ Disapprove

b. Wellhead tax revenues ($1.3 billion)

________ Approve

________ Disapprove

c. HUD budget savings from lowered subsidies ($.55 billion)

________ Approve

________ Disapprove

If you approve the above recommendations, and our suspicion that our current estimate of the number of disabled households is inflated is confirmed, the net initial cost of the proposal would be -$0.3 billion. Although I do not recommend this course, the net initial cost of the proposal would be -$0.7 if you decide to impute housing benefits to cash assistance recipients in the manner outlined above.

It is in this context that we recommend approval of the following program changes:

2. The Enlarged EITC (cost for cash assistance recipients if $.3 billion; cost for positive tax system revenues is $3-4 billion, to be financed as part of tax reform).

________ Approve

________ Disapprove

3. Other Proposed Program Changes

a. Federal payment of half of State Wage Supplements — ($.16 billion)

_______ Approve

_______ Disapprove

b. Separate filing status for children with legally non-responsible relatives — ($.2 billion)

_______ Approve

_______ Disapprove

c. Grandfathering Federal share for SSI recipients — ($.1-.3 billion)

_______ Approve

_______ Disapprove

d. Family-based filing unit — ($.6-1.0 billion)

_______ Approve

_______ Disapprove

e. Federal cost of supervisory wages in Jobs Program — ($.3 billion)

_______ Approve

_______ Disapprove

f. Increased Emergency Needs Program — ($.4 billion)

_______ Approve

_______ Disapprove

g. Child Care Deduction — ($.5-.8 billion)

_______ Approve

_______ Disapprove

If you approve these recommended program additions (items 3a-3g), the net initial cost of the welfare program will be $2.3-3.2 billion.

INDEX TO TABS TO PART II

TAB A

BENEFIT STRUCTURE (1978 Dollars)

	Benefits at Various Earnings Levels					Total Income at Various Earning Levels 1/					Breakeven Level of Earnings (Benefit = 0)
	$ 0	$2000	$4000	Full time Min. Wage $5512	$8000	$ 0	$2000	$4000	Full time 2/ Min. Wage $5512	$8000	
Single individual 3/	1100	100	0	0	0	1100	2183	4166	5741	8332	2200
	0	0	0	0	0	0	2083	4166	5741	8332	2200
Childless couples 3/	2200	1200	200	0	0	2200	3283	4366	5741	8332	4400
	1100	1100	200	0	0	1100	3183	4366	5741	8332	4400
Single parent, One young child	3000	2000	1000	244	0	3000	4083	5166	5985	8332	6000
Two parents 3/ One child	3600	2600	1600	844	0	3600	4683	5766	6585	8332	7200
	1700	1700	1600	844	0	1700	3783	5766	6585	8332	7200
Two parents 3/ Two children	4200	3200	2200	1444	200	4200	5283	6366	7185	8532	8400
	2300	2300	2200	1444	200	2300	4383	6366	7185	8532	8400
Single parent Three children, at least 1 young	4200	3200	2200	1444	200	4200	5283	6366	7185	8532	8400
Two parents, 3/ Five children	6000	5000	4000	3244	2000	6000	7083	8166	8985	10,322	12,000
	4100	4100	4000	3244	2000	4100	6183	8166	8985	10,332	12,000
Aged, Blind, or Disabled Individual	2550	1550	550	0	0	2550	3633	4716	5741	8332	5100
Aged, Blind, or Disabled Couple	3880	2880	1800	1124	0	3880	4963	6046	6865	8332	7760
Aged, Blind, or Disabled Parent, Three children	4650	3650	2650	1894	650	4650	5733	6816	7635	8982	9300

1/ Includes Earned Income Tax Credit and Social Security payroll taxes.

2/ This column, less $551 since the Earned Income Tax Credit does not apply, shows the total income if the household accepts a special public job.

3/ The higher benefit level only applies if the household cannot be assured a job.

TAB B

TAB B

INDEXING OF FEDERAL BENEFITS

The latest official forecasts (1977 and 1978) and rough extrapolations (1979 - 1982) of the rise in the Consumer Price Index are shown below.

CPI Forecasts

1977	1978	1979	1980	1981	1982
6.9%	6.1%	5.7%	4.5%	4.3%	4.2%

If the Federal benefit is not indexed, the purchasing power of the benefit declines with inflation. That is, while the proposed benefit would purchase $4,200 of goods and services in 1978, a $4,200 benefit in 1982 would purchase only $3,031 of goods and services. The standard of living of the recipient would have declined by almost 30 percent, as shown below.

Not Indexed:	1978	1979	1980	1981	1982
Face Value	$4,200	4,200	4,200	4,200	4,200
Purchasing Power	$3,671	3,462	3,306	3,164	3,031

If the benefit is indexed, a family of four would have the face value of its payment rise from $4,200 in 1978 to $5,041 in 1982. The purchasing power of the benefit, however would remain constant.

Indexed:	1978	1979	1980	1981	1982
Face Value	$4,200	4,439	4,639	4,838	5,041
Purchasing Power	$4,200	4,200	4,200	4,200	4,200

The breakeven level in the program is $8,400 in 1978. With indexing, the breakeven will have risen to $10,082 by 1982. At the same time, a minimum wage income, if indexed to manufacturing wages, will probably have risen to around $7,000 by 1982, from an estimated $5,500 in 1978.

	1978	1979	1980	1981	1982
Breakeven Indexed:	$8,400	8,878	9,278	9,676	10,082

The additional Federal outlays required as a result of indexing are shown below. These are rough estimates and will differ as the inflation rate changes or underlying welfare program expenditures are altered. Moreover, they underestimate Federal costs in the sense that, without indexing, growth in money wages would push recipients off of welfare or lower their benefits. On the other hand, since real wages are likely to rise over time, even with indexing, the number of recipients should decline, _ceteris paribus_, lowering these estimates of added Federal outlays.

	1979	1980	1981	1982
Added Federal Outlays (in millions)	783	671	673	687

TAB C

EARNED INCOME TAX CREDIT

Under the proposed plan, the Earned Income Tax Credit would phase-up at a 10 percent rate on all earnings up to the level at which the household ceases to be eligible for cash assistance. Thus, the maximum EITC payment varies by family-size. After the phase-up range, the EITC benefit is reduced 15 cents for each additional dollar earned.

Family-Size	Earnings Level of Maximum EITC payment	Amount of EITC at Maximum	EITC Breakeven*
2	$ 6,480	$ 648	$10,800
3	$ 7,776	$ 778	$12,963
4	$ 9,072	$ 907	$15,119
5	$10,368	$1,037	$17,281
6	$11,664	$1,166	$19,437
7 or more	$12,960	$1,296	$21,600

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* Assumes phase-out of the EITC with a 15 percent benefit reduction rate. Alternatively, the EITC could be retained for all income levels (i.e., never phased out). The lost revenues could be recovered by raising the positive tax rates marginally for all tax brackets. This approach avoids the high breakeven levels as well as the high total marginal tax rates in the initial tax bracket (40 percent comprised of 19 percent positive taxes, 6 percent FICA and 15 percent EITC).

TAB D

COMPARISON OF PROPOSED BENEFITS WITH CURRENT BENEFIT LEVELS

I. Proposed Federal Benefit Level for 4-Person Family ($3812 in 1976 dollars) Compared to AFDC Benefits Plus Food Stamps.

Combined AFDC (Largest Amount Paid) and Food Stamp Benefits - 4-Person Family (July 1976)

Current Benefits Exceed Proposed Federal Benefit (38 States and District of Columbia)

Hawaii	$7044
Alaska	6156
Oregon	5724
Wisconsin	5616
New York	5592
Connecticut	5496
Michigan	5472
Massachusetts	5364
Minnesota	5364
Washington	5364
California	5292
Vermont	5292
Pennsylvania	5220
North Dakota	5184
Rhode Island	5160
New Jersey	5124
Iowa	5124
Kansas	5112
New Hampshire	5004
Idaho	4980
South Dakota	4848
Utah	4848
Illinois	4728
District of Col.	4692
Virgina	4656
Nebraska	4524
Delaware	4512
Oklahoma	4476
Maine	4404
Colorado	4380
Wyoming	4308
Nevada	4200
West Virginia	4200
Ohio	4188
Montana	4164
Indiana	4140
Maryland	4116
Kentucky	4032
New Mexico	3828

Proposed Federal Benefit Exceeds Current Benefits (12 States)

North Carolina	$3756
Arizona	3732
Florida	3468
Missouri	3468
Louisiana	3396
Georgia	3324
Arkansas	3228
Texas	3228
Alabama	3204
Tennessee	3168
South Carolina	3060
Mississippi	2556

II. Proposed Benefit Level for an Aged, Blind, or Disabled Individual ($2314 in 1976 dollars) Compared to Current SSI Benefits Plus Food Stamps

Combined SSI Benefit Level (Including Optional State Supplement, if any) and Food Stamps - Aged Individual Living Independently (1976)

Current Benefits Exceed Proposed Federal Benefit (19 States)

Alaska	$4176
Massachusetts	3389
California	3312
Connecticut	3194
Wisconsin	2928
Nebraska	2916
Idaho	2892
New York	2864
Nevada	2577
Washington	2567
Colorado	2556
Pennsylvania	2546
Vermont	2544
Rhode Island	2535
Hawaii	2520
Minnesota	2496
Michigan	2448
New Jersey	2424
Oklahoma	2420

Proposed Federal Benefit Exceeds Current Benefits (31 States and District of Columbia

Oregon	$2302
Maine	2278
Illinois	2244
New Hampshire	2184

Alabama
Arizona
Arkansas
Delaware
District of Columbia
Florida
Georgia
Indiana
Iowa
Kansas
Kentucky
Louisiana
Maryland
Mississippi
Missouri
Montana
New Mexico
North Carolina
North Dakota
Ohio
South Carolina
South Dakota
Tennessee
Texas
Utah
Virginia
West Virginia
Wyoming

No Optional State Suppl. - Benefit Level is $2218

TAB E

PHASE-IN OF FEDERAL BENEFIT LEVELS

The proposed program has a $4,200 Federal basic benefit for a family of four, with 75% Federal sharing in state supplements up to $4,700 and 25% sharing from $4,700 to $6,356 (approximate poverty line). We propose that the Federal basic benefit gradually be phased up to $4,700 (in constant 1978 dollars) so as to eliminate the 75% sharing range. Thus, Federal benefit levels would be increased in real terms over the phase-in period, in addition to being indexed for changes in the CPI. The resulting Federal program structure would be virtually the same as originally proposed in the May 19 memorandum.

The phase-in can be accomplished over any specified period of time. The table below shows how benefits would increase under two options: 2% a year for 6 years and 1% a year for 12 years.

Proposed Federal Benefit for a Family of Four
(1978 dollars)

	Option 1 2%/6 Years	Option 2 1%/12 Years
1978	4,200	4,200
1979	4,284	4,242
1980	4,370	4,284
1981	4,457	4,327
1982	4,546	4,370
1983	4,637	4,414
1984	4,730	4,458
1985	4,730	4,503
1986	4,730	4,548
1987	4,730	4,593
1988	4,730	4,639
1989	4,730	4,686
1990	4,730	4,733

Impact of the Phase-In

1. Costs. Under either option, Federal costs would increase over time. The Federal government will be paying the 100% of the higher basic benefit for all recipients but will be saving the 75% sharing costs for those states that supplement in the $4,200 to $4,700 range during the interim phase-in period. Thus, assuming that 1978 economic conditions are fixed, in 1984 for the 2%/6-year option (or in 1990 for the 1%/12-year option), the cost of the basic Federal program will increase by $ ____ billion and the Federal cost of the state matching program will decrease by $ _____ billion; the net impact would be a $ ____ billion increase in Federal transfer costs.

2. Program Structure. Essentially, the Federal basic benefit would return to the $4,700 level we had used prior to the adaption of the program for the phase-in plan. This would eliminate the 75% matching range for state supplements and, along with it, much of the inequitable variation in Federal benefits to people in different states. The resulting program would have a $4,700 basic benefit, 50% benefit reduction rate, and $9,400 breakeven. The lower-tier and disregard structure would retain the same (real) difference from the upper-tier; that is, the lower-tier would be increased each year by the same dollar amount as the upper-tier.

3. Work Incentives. The public/private job wedge (due to the EITC) and marginal work incentives would remain the same.

4. State Supplements. Aside from the obvious reduction in the need/desire for state supplements, the phase-out of the 75% has little effect on state incentives to supplement. If anything, states may use freed up funds to increase their supplements. The biggest impact on state supplements is the 48% benefit reduction rate constraint for two-parent families. In effect, we would be prohibiting supplements to two-parent families by the end of the phase-in period.

Summary

- The phase-up of real Federal benefits can be accomplished over any specified period of time. Two suggested options are: 2% a year over 6 years, or 1% a year over 12 years.

- The ultimate real costs of both options are the same; only the rate of increase differs.

- The final Federal program structure would be virtually the same as the original May 19 proposal: a $4,700 basic benefit with a 50% benefit reduction rate and a breakeven of $9,400.

TAB F

SINGLE-PARENT AND TWO-PARENT FAMILIES: BENEFIT DISPARITIES IN STATE SUPPLEMENTS

Assuming States supplement the Federal benefit to sustain their current AFDC levels, benefit disparities between single-parent and two-parent families would likely result. This is the inevitable result of two factors:

- o State supplements to two-parent families are constrained to not exceed a 48 percent benefit reduction rate, and;
- o States will not want to increase the breakeven for two-parent families above that for single-parent families.

This table shows the disparities assuming states continue to pay their current AFDC levels.

Annual Benefits for a Family of Four
After State Supplementation

	Basic Benefits (i.e., Earnings = 0)			Disparity in Benefit Supplement to Special Public Job 2/
	Single-Parent Families	Two-Parent Families	Disparity 1/	
Alabama	$ 3,812	$ 3,812	$ 0	$ 0
Alaska	5,769	4,285	1,484	492
Arizona	3,812	3,812	0	0
Arkansas	3,812	3,812	0	0
Californi	5,292	3,964	1,328	368
Colorado	4,380	3,964	416	116
Connecticut	5,496	4,083	1,413	421
Delaware	4,512	3,964	548	152
District of Columbia	4,696	3,964	728	199
Florida	3,812	3,812	0	0
Georgia	3,812	3,812	0	0
Hawaii	5,769	4,285	1,484	492
Idaho	4,980	3,964	1,016	282
Illinois	4,728	3,964	764	212
Indiana	4,140	3,964	176	49
Iowa	5,124	3,964	1,160	322
Kansas	5,112	3,964	1,148	318
Kentucky	4,032	3,964	68	19
Louisiana	3,812	3,812	0	0
Maine	4,404	3,964	440	122
Maryland	4,116	3,964	152	42
Massachusetts	5,364	3,985	1,379	387
Michigan	5,472	4,065	1,407	415
Minnesota	5,364	3,985	1,379	387
Mississippi	3,812	3,812	0	0
Missouri	3,812	3,812	0	0
Montana	4,164	3,964	200	56

TAB G

STATE SUPPLEMENTS ILLUSTRATED

The proposal for parallel State supplements may be illustrated by showing how it might work in the State of New York.

I. State Supplements to Federal Cash Benefits:

A. Income Support Tier for Families Not Expected to Work

- The Federal basic benefit for a family of four is $4200 (1978 dollars).

- In New York State, the basic benefit for a family of four established by the State AFDC and Food Stamp programs will be $6161. This is calculated by multiplying the 1976 benefit level by the inflation factor used to convert 1976 dollars to 1978 dollars ($5592 x 1.1018).

- Thus, the basic benefit on the uper tier established by the supplement program in New York State will be $6161. Since the maximum nominal (irrespective of EITC and FICA) tax rate permitted on this tier is 70 percent, the breakeven in the supplement program in the State will be $8802. (Guarantee divided by tax rate equals breakeven.)

- The Federal proposal constrains both the tax rate and the breakeven in State supplement programs, but because the New York State supplement breakeven ($8802) is below the positive income tax threshold ($9080), the supplement guarantee determined by the State AFDC and Food Stamp benefit level falls within Federal constraints. 1/

B. Income Support Tier for Families Expected to Work (i.e., when they "flip-up" due to unavailability of a job)

- The Federal proposal establishes that the maximum nominal tax rate for families expected to work (even if "flipped-up" to the upper tier) is 52 percent. This constraint, together with the fact that States are unlikely to increase the breakeven for two-parent families above tht for single-parent families, means that the basic upper tier benefit for a family of four that is expected-to-work tier will be $4577 in New York. (Breakeven multiplied by tax rate equals basic benefit.) This is the amount such a family would receive if no job is provided by the government.

1/ Actually, the supplement breakeven can cross the tax threshold if the State credits the recipient household for all positive taxes paid. Federal cost-sharing, however, does not extend to basic benefit levels above the poverty line, which are approximately equivalent to having breakevens above the tax threshold with a 70 percent tax rate.

C. Earned Income Supplement Tier

- If a job is provided to a two-parent family or a single-parent family with older children, that family receives benefits on the lower tier, the Earned Income Supplement Tier.

- In New York State, the basic benefit on the lower tier would be $2506, which is $2071 less than the upper tier benefit for those required to work (lower tier benefits are increased proportionally with upper tier benefits). The new disregard on the lower tier would be $4142 (2 x $2071).

D. Federal Participation in the Cost of Supplements

- The reform proposal states that the Federal government will pay 75 percent of the cost of supplements up to $4700 and 25 percent up to the poverty line, which in 78 will be about $6440 for a family of four.

- Thus, the Federal share of the New York supplement guarantee on the income support tier will be $4940 or 80 percent of $6161. This is calculated as follows.

  $4200

  + 375 (.75 x (4700 - 4200))

  + 365 (.25 x (6161 - 4700))

  ———

  $4940

- The Federal portion of supplement costs must be calculated separately for each household. Our computer simulation first calculates the Federal benefit, then assumes that the Federal government will pay 75 percent of the amount of the supplement up to 112 percent of the Federal benefit, and 25 percent of the balance.

II. State Supplement to the Federal PSE Wage:

- The reform proposal requires States that establish supplement schedules providing a guarantee on the income support tier in excess of $4700 (for families not required to work) to supplement the hourly PSE wage.

- The PSE wage is increased by whatever percentage the State supplement guarantee exceeds \$4700, except that it is not increased more than 10 percent.

- In New York State, the supplement to the hourly wage would be the 10 percent maximum.

$$\frac{6161}{4700} = 1.31, \text{ so 10 percent maximum}$$

- Thus, the hourly wage in special public service jobs in New York State would be \$2.92 (\$2.65 x 1.1).

TAB H

FILING UNIT

Consider a group of people living together that includes:

Mother
Father
Child #1, age 17
Child #2, age 2, daughter of child #1
Mother's brother, age 40
Mother's mother, age 70

1. Extended Family Filing Unit. This filing unit was used in the May 19 memo, and is quite similar to that currently used in the Food Stamp program. The unit's benefit would be $6850* (comprised of $1900 for father, $1100 for mother, $600 each for the two children, $1100 for mother's brother, and $1550 for the mother's mother).

2. Separate Filing Status for the Aged, Blind, and Disabled. This memorandum assumes an extended family filing unit with separate filing status allowed for aged, blind, and disabled persons. Under this option, the 70 year old lady would be allowed to "split off," forming her own filing unit. She would receive a benefit of $1700 (assuming she continues to live with the family, her basic benefit of $2550 would be reduced by one-third, which is also the current practice in SSI). The remaining members of the extended family would receive $5300. The total for the two new filing units would be $7000.

3. Family-based Filing Unit. This memorandum recommends that additional funds be committed to permit a "family-based" filing unit, which is quite close to current practice in AFDC and SSI. Under these rules, "nuclear families" would file separately. A nuclear family is any married couple (with or without children) or any parent with children (with or without spouse present). Non-aged, blind, or disabled adults who are not part of a nuclear family but live in the same household with relatives would file jointly with the relatives or not at all.

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* All benefits, assume the unit has no other income.

Therefore, the mother, father, and mother's brother would form one filing unit, and would be eligible for a benefit of $3300 ($1100 each).* The two children would form a separate unit, and be eligible for a benefit of $3000 ($2400 for child #1, including a $800 head of household bonus and a $500 single parent bonus, and $600 for child #2). The aged lady would continue to file as a single aged person and receive a benefit of $1700. The total for the three units would be $8000. The family based filing would cost an additional $.5 to $.7 billion more than the separate filing status for aged, blind, and disabled persons.

* The brother could in principle file with the children's unit.

TAB I

ACCOUNT... LE PERIOD

Effect of Different Length Accountable Periods on Waiting Period for Cash Benefits (e.g., if a full-time worker is laid off)

PREVIOUS STATE OF INCOME		PERIOD WITHOUT BENEFITS (Number of months that a filing unit earns nothing but is eligible for no benefits*)			
		Length of Accountable Period			
Annual Rate	Possible Description	1 month	3 months	4 months	6 months
$ 5,200	Minimum wage ($2.50/hr, 40 hrs/wk)	0	0	0	0
8,400	Breakeven level	0	0	0	0
10,000	Public school teacher	0	0	0	0
10,600	Average wage in manufacturing	0	0	0	1
12,000	City school teacher	0	0	1	2
12,600	1.5 times the breakeven	0	1	1	2
14,000	Teacher, assistant professor; approximate median family income	0	1	2	3
15,000	Construction worker earning at approx, average weekly wage for construction workers	0	1	2	3
16,800	Twice the breakeven	0	2	3	5
26,000	Young footfall player	0	2	3	5
60,000	Stock broker	0	2	3	5

* Family will actually not receive a payment until 15-45 days after the first month in which it is eligible.

Notes:

- Above table based on a four-person family. Waiting period for larger families would be shorter.
- Many would be eligible for Unemployment Insurance benefits while waiting to become eligible for cash assistance payments.
- Principal earners in families with children would be eligible for special public service jobs after five weeks.

TAB J

NUMBER OF EMPLOYEES REQUIRED TO ADMINISTER THE PROGRAM

- If all States opt for Federal intake, as well as Federal computation and payment, then the new cash assistance program will require an estimated 110,000 Federal eeployees. Approximately 10,000 State employees would still be needed for emergency needs and related State activities. In total this implies an increase of about 85,000 in Federal employment and a decrease of about 108,000 in State and local government employment. (Net total decrease of about 20,000 relative to 1976 employment levels.)

- If all States opt for State intake, with Federal computation and payment, then the new cash assistance program will require an estimated 9,000 Federal employees and 121,000 State employees (for intake as well as emergency needs)—net decrease of about 14,000 in Federal employment and a net decrease of about 7,000 in State employment. (Net total decrease of about 20 or 21,000 relative to 1976 levels.)

- If some States opt for Federal intake while other States opt for State intake we would expect a small net increase in Federal employment and a small net decrease in State employment. (Net total decrease of about 10,000 relative to 1976 levels.)

In summary, there would be a decrease of around 10,000 to 20,000 in total Federal, State, and local government employment under these alternatives.

TAB K

IMPACT ON RECIPIENTS

CALIFORNIA

Total Number of Recipients

AFDC:	2.235 million
SSI:	.800 million

Total Better Offness: $1487 million

Total Worse Offness: $ 703 million

Better Offness	Recipients	Dollars
AFDC	1.174 million	$365 million
SSI	.487 million	$240 million
Worse Offness		
AFDC	.876 million	$372 million
SSI	.295 million	$256 million

IMPACT ON RECIPIENTS

GEORGIA

Total Number of Recipients

AFDC:	.432 million
SSI:	.223 million

Total Better Offness: $ 525 million

Total Worse Offness: $ 81 million

Better Offness	Recipients	Dollars
AFDC	.210 million	$ 36 million
SSI	.169 million	$ 62 million

Worse Offness		
AFDC	.167 million	$ 42 million
SSI	.063 million	$ 29 million

IMPACT ON RECIPIENTS

LOUISIANA

Total Number of Recipients

AFDC:	.287 million
SSI:	.179 million

Total Better Offness: $ 403 million

Total Worse Offness: $ 72 million

Better Offness	Recipients	Dollars
AFDC	.151 million	$ 31 million
SSI	.134 million	$ 50 million
Worse Offness		
AFDC	.118 million	$ 34 million
SSI	.059 million	$ 29 million

IMPACT ON RECIPIENTS

MICHIGAN

Total Number of Recipients

AFDC:	.859 million
SSI:	.179 million

Total Better Offness: $ 559 million

Total Worse Offness: $ 285 million

Better Offness	Recipients	Dollars
AFDC	.404 million	$164 million
SSI	.109 million	$ 51 million

Worse Offness		
AFDC	.395 million	$197 million
SSI	.081 million	$ 52 million

IMPACT ON RECIPIENTS

NEW YORK

Total Number of Recipients

AFDC:	1.660 million
SSI:	.616 million

Total Better Offness: $1111 million

Total Worse Offness: $ 739 million

Better Offness	Recipients	Dollars
AFDC	.765 million	$226 million
SSI	.309 million	$140 million

Worse Offness		
AFDC	.753 million	$422 million
SSI	.282 million	$227 million

IMPACT ON RECIPIENTS

OREGON

Total Number of Recipients

AFDC:	.164 million
SSI:	.043 million

Total Better Offness: $ 144 million

Total Worse Offness: $ 41 million

Better Offness	Recipients	Dollars
AFDC	.102 million	$ 32 million
SSI	.023 million	$ 14 million

Worse Offness		
AFDC	.049 million	$ 28 million
SSI	.016 million	$ 10 million

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TAB 1

TAB 1

Subsidized Public Jobs and Training 7/25/77

This paper discusses the jobs component of the work and training segment for some 1.4 million low income workers. While the focus here is on the types of jobs that can be created, the program on balance will provide a mix of jobs and training (on and off the job). Even the subsidized job slots, themselves, can involve some combination of work and training in varying proportions, with the particular mix determined by local officials. These slots must be suited to low skilled workers, pay wages at the statutory minimum end of the wage range, make important contributions to public facilities and services, and be set up on a fairly large scale. What types of activities in the public and private non-profit sectors fit these requirements?

A definitive, single answer to this question cannot be developed in Washington since decisions about specific job categories will be made by locally elected officials, as indicated in the President's initial set of welfare reform principles. However, it is important now to demonstrate that sufficient potential for job creation of the appropriate type exists and that local officials will have a manageable task.

Most recently, attention in the Labor Department to the issue of welfare reform job creation has focused on the current expansion of PSE slots in CETA Titles II and VI and on perceived needs throughout the country for the services and facilities produced in certain types of these jobs. The early expansion of Title VI projects, particularly, has been examined to find actual local examples of new types of jobs that can be set up on a large scale, and yet do not undermine the wage patterns and provoke the resistance of established groups of workers. There are encouraging signs in the expansion of PSE in general and in the early experience of localities in generating projects that fit welfare reform requirements in particular. This experience is reflected in a history of job types set forth below.

(A group of CETA prime sponsors has commented on a preliminary draft of this paper. The general reaction was that the types of jobs listed here are appropriate for welfare reform purposes and could be created in their jurisdictions. The sponsors indicated, however, that not all of the types would be universally applicable in all jurisdictions. Particular and differing local circumstances will determine the emphasis given to the various types of jobs.)

The PSE Expansion in General

Three years ago the separate PSE program contained 50,000 slots. With the onset of the recession, this level was increased to 310,000 positions. Under the stimulus package, the level will be increased to approximately 725,000 positions by the spring of 1978.

Most of this latest increase will be achieved by adding special projects. This build-up also will be targeted on individuals who have been unemployed for at least 15 weeks and who come from families whose incomes do not exceed 70 percent of the BLS low income standard (that is, $7,000). Thus, the build-up will be targeted on individuals who are very much like those who are going to be employed under the welfare reform proposal.

A further expansion from 725,000 stimulus package PSE slots to some 1.4 million welfare reform job and training slots would be accomplished over a period of three years. Thus, the future rate of build-up can be considerably slower than that which is being experienced at present.

The expansion is on schedule so far. The scheduled pace, calling for enrollment increases of 60,000 a month, has been met to date .(See Chart I.)

There has been no attempt to hold down salaries in the Title VI expansion. As a result, despite the fact that about 20% of the positions have been filled in private community based organizations, the average wage rate is over $3.60 per hour. These wage rates are being paid for such low skilled work as developing bicycle routes, providing home care for the aged, organizing recreational programs, etc. The workers now performing this work generally do not receive any cash supplements from the welfare system. This type of low-skilled work could be paid the minimum wage. Under welfare reform, many of the workers' wages would be supplemented by cash assistance.

Table II, which depicts a sample of innovative projects, clearly indicates that projects contain a wage structure comprised of more than one level. This allows for a work force comprised of more experienced lead workers and supervisors.

Projects Fitting Welfare Reform Requirements

From the wide variety of projects underway in the expansion, a number of major types are described in detail below to illustrate the potential for welfare reform. A summary table showing the types of projects generically and a conservative estimate of the number of slots which could be created under welfare reform is also presented. Each of the types included here could comprise a sizeable number of slots, as the very rough estimates indicate. Actually, the experience in the build-up from which they are drawn indicates that local officials at this point are generally starting a large number of small projects rather than a limited number of large ones. This listing, in emphasizing projects that could be mounted on a large scale, does not exhaust the breadth of possibilities.

Each of the types described below is suited to welfare reform purposes because it involves low skill levels, can pay minimum wages (although most current projects, not restrained, pay higher), need not erode existing wage structures, and is in new or expanding areas where the public and the workers can feel that the work is important. Moreover, most of these project types are conducive to a mix of work and training. The Labor Department plans to conduct demonstration projects over the next several years to develop the best ways of tailoring jobs to welfare reform purposes. The first of some ten such projects will be launched this fall in Minnesota.

Many of the estimated 1.4 million individuals eligible and expected to be applying for work and training will not be enrolled in the types of jobs described here, but rather will be placed in subsidized on-the-job training in the private-for-profit sector. Others will be placed in classroom training. In addition, a full scale effort to place applicants in unsubsidized private sector jobs will be an important and integral part of the overall program.

Major Categories of Job Creation:
Summary of Jobs and Slot Estimates

Category		Number of Slots Our Estimate	Total Estimate
1.	Public Safety	150,000	155,500
2.	Recreation Facilities	200,000	221,500
3.	Facilities for the Handicapped	25,000	31,000
4.	Environmental Monitoring	50,000	59,300
5.	Child Care	150,000	168,000
6.	Waste Treatment and Recycling	25,000	32,500
7.	Clean Up and Pest/Insect Control	100,000	110,000
8.	Home Services for the Elderly and Ill	200,000	237,000
9.	Recreational Programs	125,000	141,200
10.	Weatherization	50,000	65,800
11.	Paraprofessionals in the Schools	150,000	160,000
12.	School Facilities Improvements	100,000	128,000
13.	Cultural Arts Activities	75,000	86,500
		1,400,000	1,599,300

1. Public Safety - 150,000 Slots

- Installing locks, window grates, latches, smoke detectors and other security devices in the homes of senior citizens and low income families residing in high crime areas.

- Patrolling high fire risk districts, conducting home inspections and fire safety demonstrations.

- Inspecting homes for security deficiencies and providing instruction in remedying security problems.

- Providing paraprofessional traffic and crowd control.

- Escorting senior citizens in high crime areas.

- Providing security services for housing projects.

Portland, Oregon - Upgrading the security of senior citizens and low-income families residing in high crime areas.

Stark County, Ohio - Organizing security patrols for the Metropolitan Housing Authority projects.

Massillon, Ohio - Establishing security patrols in public parks to reduce vandalism and to assist police in answering complaints in the park areas.

Fort Worth, Texas and Live Oak County, California - Registering and marking equipment and other property with a high theft risk.

Factors Considered in Estimating Slots

- There are an estimated 4.0 million homes in areas with high street crime occupied by senior citizens and/or low-income families. Installation of security devices in these residences over a three year period would require 35,000 man/years if an average of 200 homes/year were completed by 5 person crews.

- There are 176,000 fire fighters and 365,000 policemen in the U.S. Additions of a single paraprofessional for every 30 regular firemen (not even including those in volunteer departments) and policemen would enable 18,000 slots to be created.

- Most cities and towns could develop a 5-25 person elderly escort service. If we assume that such a program might be instituted in half of the 391 cities with a population over 50,000 with each program employing just 10 persons, then 2,000 slots could be created.

- In 1976 there were 11,000 public housing projects. If 30 percent--the largest projects--develop security patrols with an average of 30 persons in each project, then 100,000 slots could be created.

- In 1977 there were 13,663 Forest Protection and Utilization Workers in the U.S. Forest Service. Assuming an addition of 1 paraprofessional for every 30 regular employees, then nearly 500 slots could be created.

- In 1975 there were 952 Operation Identification programs. Adding three additional workers to each project could create nearly 3,000 slots.

Total Slots - 158,500
Our Estimate - 150,000

2. Recreation Facilities - 200,000 Slots

- Developing bikeways, nature, backpacking and other trails, many with special features for the handicapped.

- Maintaining existing parks, gardening, cleaning up litter and debris, posting signs and making minor repairs to existing facilities.

- Building new parks and recreational facilities in counties and municipalities.

Examples of Projects Improving Recreational Facilities

Jacksonville, Mississippi - Developing a system of bicycle routes to promote bicycling for recreation and as an alternate means of transportation.

North Canton, Ohio - Building neighborhood parks, constructing parking facilities, picnic areas and playgrounds.

Chicopee, Massachusetts - Preparing and improving baseball diamonds, swimming pools, bleachers, picnic tables, and bandstands in community parks.

Factors Considered in Estimating Slots

- The U.S. Department of the Interior has estimated that it could develop 30,000 slots for unemployed individuals in National Park projects beginning in FY 1978.

- The National Forest Service has identified a total of 155,593 man/years of work. If only 30 percent of these projects were developed, 47,000 slots could be created.

- States and communities identified 451 bikeway projects which were not funded by a DOT demonstration program. Judging from similar projects employing an average of 10 workers, 4,500 workers could be employed. An additional 6,232 miles of abandoned railroad rights of way have been identified as suitable for conversion to bikeways. Assuming 3 workers per mile of bikeway, some 2,000 jobs slots could be created if conversion projects were developed.

- There are 34,660 State, County and Municipal parks. Assuming that 50 percent--the more sizeable parks--could employ an additional 5 persons on maintenance and improvement projects, then some 104,000 slots could be created. Such projects would involve additions, upgrading, clean up and minor maintenance to the 19,294 baseball diamonds, 4,435 outdoor swimming pools, 12,343 tennis courts, 9,212 recreation buildings, 11,691 playgrounds and 14,237 indoor recreation centers.

- Increasing the number of State, Municipal and County parks by 10% could create an additional 34,000 jobs, assuming 10 person crews building the new parks and facilities over a period of years.

Total Slots - 221,500
Our Estimate - 200,000

3. Facilities for the Handicapped - 25,000 Slots

- Building ramps for the handicapped at major street intersections and in public buildings.

- Installing braille signs in elevators.

Examples of Handicapped Facilities Projects

Memphis/Shelby County, Tennessee - Laborers and semi-skilled maintenance workers are building ramps for the handicapped in 5 key areas of the city used heavily by handicapped and elderly. Subsequent projects may include placing braille instructions in elevators, interpretative signs for the deaf or partially blind.

St. Petersburg, Florida - Streets Department is hiring workers to construct ramps for handicapped.

Albion, Michigan - Sidewalk maintenance crew is constructing ramps for the handicapped as well as performing other work, such as repairing unsafe surfaces and deteriorating curbs.

Factors Considered in Estimating Slots

- Personnel requirements of current similar CETA programs range up to 55 workers in individual communities. Assuming that an average of 40 persons would be employed in 80 percent of the 840 cities with population over 25,000, then 28,000 jobs would be created.

- This figure does not include the potential impact of HEW issued regulations on easy access for the handicapped to educational facilities. For example, in 1974 there were 1,200 public and 1,500 private institutions of higher education in the United States. Three thousand jobs would be created if 1,000 of these institutions hired 3 person crews to build ramps and other facilities.

Total Slots - 31,000
Our Estimate - 25,000

4. Environmental Monitoring - 50,000 Slots

- Air pollution monitoring. Readings at municipal air quality stations, processing and transporting data tapes, and minor machine maintenance.

- Water monitoring. Regular sampling of effluents from municipal and industrial water treatment plants and facilities.

- Comprehensive survey of U.S. potable water sources and treatment.

- Noise pollution monitoring. Noise level readings by teams of monitors and metropolitan areas at varying locations and times (rush hour traffic, inner city airport flight patterns, etc.) for establishing ambient noise standards. Data collection and collation.

Examples of Environmental Projects

Bay City, Michigan - Detection and correction of sewage disposal problems in certain townships through a sampling and dye testing procedure. Eventual elimination of sewage and other discharges onto surface water. Employees: Governmental Health Technicians.

Madison, Wisconsin - Assisting in the measurement of stream flows and conducting water quality monitoring surveys. Stream surveys include measurements of waste load allocation, fish population, aquatic vegetation and aquatic vertebrae.

Factors Considered in Estimating Slots

- Mandated EPA requirements for monitoring various forms of pollution.

- Nationwide, there are from 1,000 to 2,000 stationary air quality monitoring stations as well as 1,500 portable monitors, primarily in urban areas. Each of the areas could employ workers in a variety of tasks and occupations. The National Field Research Center Inc. estimated that 32,000 workers could be employed to perform such work.

- There are approximately 22,000 municipal water treatment plants which monitor the discharge of effluents into rivers, lakes, and streams. Assuming 15 percent of the municipal facilities could employ an average of one monitor, then 3,300 slots could be created. An additional, uncounted group would be needed to monitor the large number of private industrial plants which discharge effluents into waterways.

- Each of the 600,000 plus water supplies in the U.S. serving 25 or more households must be surveyed as to its source, treatment method, method of distribution, number of households served, etc. Assuming one surveyor could be employed for every 25 water sources, then 24,000 slots could be created.

Total Slots - 59,300
Our Estimate - 50,000

5. Child Care - 150,000 slots

- Working in Preschool Day Care Centers as:
  - o Teachers Aides
  - o Food Service Aides
  - o Clerical Workers
  - o Custodians and Bus Drivers
- Caring for small groups of young children in home settings.
- Supervising after-school study hours and playground activities of young (6-14) children whose parents work.
- Serving as "babysitters" in the welfare and other public offices where mothers seek assistance.

Examples of Child Care Projects

Springfield, Missouri - Day care program trains and hires low-income people to serve as teachers aides, cooks, bus drivers and custodians.

Flint, Michigan - Comprehensive child development program trains and hires a number of nonprofessional persons in day care work.

Canton, Ohio - Preschool day care center will serve the summer influx of school aged children whose parents work by hiring teachers, teachers assistants and bus drivers.

Factors Considered in Estimating Slots

It is estimated that some 230,000 women with children under the age of six (200,000 full-year equivalent slots) will volunteer for the work and training slots. If each of these women have an average of two small children, this will generate a demand for 400,000 day care slots. Given the non-professional staff/child ratio of one to six for preschool care, and assuming that only half of these children receive formal day care arrangements, some 33,000 nonprofessional full-time child care slots could be created to serve this population.

In addition, over 330,000 low-income women (income less than $7500 per year) with children under the age of six currently work year round. An additional 540,000 low-income women with children under six work part-year producing an equivalent of 240,000 years of work effort. If each of these 570,000 equivalent full year workers have an average of two small children, and if 50 percent of these children currently receive inadequate child care, under the one to six ratio an additional 95,000 child care related nonprofessional jobs could be created to meet these needs.

In addition some 130,000 full year equivalent public work/training slots will be filled by women with children between the ages of six and 12 (but no children under six). In addition some 1.3 million low-income women with children over six currently work an equivalent of 930,000 person years annually. If each of these approximately 1 million women have two children in the age range of 6-12 and if only 25 percent of these children require organized after school care, with a child/nonprofessional staff ratio of 1 to 10, 50,000 after school care job slots could be created.

Summary

33,000 - Full-time Child Care for Preschool Children of PSE Volunteers

95,000 - Full-time Child Care for Preschool Children of Other Low-income Working Female Family Heads

50,000 - After School Care Slots for PSE Volunteers and Other Low-income Female Heads of Families

Total Slots - 168,000
Our Estimate - 150,000

6. Waste Treatment and Recycling - 25,000 Slots

- Recycling of glass, papers, aluminum, oils, and other wastes. Processing and intake personnel to separate and screen materials, truck drivers, and clerical workers for administration.

- Inventory and classification of waste disposal facilities. Surveying, data collection and collation, and clerical support for disposal facility surveys in each State and local area.

- Inventory of hazardous wastes. Provision of detailed description of process for manufacture, transportation, and disposal of specified hazardous material waste. Surveying, data collection and collation, and clerical support required.

Examples of Waste Treatment and Recycling

Westfield, Massachusetts - Recycle glass on city wide basis. Participants taught all aspects of resource recovery.

Butler County, Pennsylvania - Nonprofit community organization employ CETA workers in all aspects of paper and glass recycling operation.

Factors Considered in Estimating Slots

- Efficient recycling efforts can exist only in sizeable metropolitan areas where scale permits.

- The need exists for approximately 50 workers in various job classifications in each recycling effort in the 500 large U.S. cities. This would result in the creation of 25,000 slots.

- Mandated EPA requirements for inventory and classification of waste-related activities. A project in each of the 50 states each employing 50 workers would create 2,500 slots.

- EPA projects a need for 100 waste disposal persons per State for hazardous materials disposal. This would create 5,000 slots.

Total Slots - 32,500
Our Estimate - 25,000

7. Clean Up and Pest/Insect Control - 100,000 Slots

- Sanitation and collection. Expanded trash, junk, and debris clean up in urban and rural areas for beautification and sanitation purposes.

- Stream clean up. Brush and debris cleaning along stream and river banks in or near population centers.

- Flood damage restoration. Clearing culverts and drains of debris and repairing damage caused by past years' flooding in large number of areas.

- Rodent control. Clearing of brush from urban ditches. Rodent baiting.

- Insect abatement. Identification and mapping of breeding grounds of mosquitos and other insects in urban areas. Handling of insecticides.

Examples of Projects Involving Clean Up Pest/Insect Control

Russell, Massachusetts - Waterways Project. To clean up streams and rivers in the town and downstream.

Rockingham, New Hampshire - Cocheco River Cleanup. To improve recreational use of river by cleaning it of debris and seeding and grading the river banks.

St. Petersburg, Florida - Sanitation, Cleanup/Collection: To collect and cleanup all brush, debris, discarded furniture, trash and junk in alleys and parkways.

Factors Considered in Estimating Slots

- Crews of 100 in as many as 500 localities and their surrounding areas could be employed to substantially reduce the incidence of accumulated trash, abandoned cars, etc. This type of project could employ 50,000 persons.

- Several hundred areas throughout the country which have suffered severe flood damage could provide employment for crews of 50 in a variety of tasks. Similar tasks could be carried out by crews of 20 workers in 1,000 or more stream, river, and lake areas to reduce the accumulation of litter and debris. These projects could employ some 30,000 persons.

- Crews of 20 could be employed in some 250 urban areas primarily to clear ditches and other areas where rats and other rodents breed, as well as to place bait and traps. These projects could employ some 5,000 persons.

- Large and small population centers could hire from 25 to 75 workers for mosquito abatement projects. Assuming 500 areas employ 50 workers each, then 25,000 slots could be created.

Total Slots - 110,000
Our Estimate - 100,000

8. Home Services for the Elderly and Ill - 200,000 Slots

- Performing a wide-range of in home-service such as:

  o Preparing meals, including (if required) cooking special bland, salt free diets, etc.; shopping for food

  o Delivering "Meals on Wheels"

o Performing household chores, such as cleaning, bathing client, helping with exercise

- Providing links between the client and the outside community such as:

  o Scheduling medical appointments, arranging or providing transportation to medical facilities or doctors' offices.

  o Providing transportation to senior community or other recreational centers, as well as for visits with friends.

  o Assessing the overall living conditions of the client to determine what other services are needed: e.g., whether there are nutritional, housing problems, etc.

- Screening for basic medical problems by performing blood pressure recordings, taking urine samples, etc.

Examples of Home Services for the Elderly and Ill

Battlecreek, Michigan - Housekeeping aides provide services to senior citizens to enable them to maintain their own homes or apartments. At the request of the client they will clean and maintain the home, correct safety hazards, etc.

West Palm Beach, Florida - "Chore Companions" assist homebound disadvantaged by doing heavy cleaning, yard work, cooking meals, helping them get to doctors, and providing companionship.

Monroe County, Michigan - Home help services are provided to disabled, aged, chronically ill and those recently discharged from hospitals. Services include: chores, meal preparation, limited personal care and maintenance of home safety.

Factors Considered in Estimating Slots

- It is estimated that 3.8 million persons not in institutions would be likely to benefit from long term personal care. Assuming a 1 to 8 staff to client ratio, 237,000 jobs could be created if half this population were to be served.

- British experience with home helpers involves using one home care aide for each 562 persons in the general population. Following a ratio of 1 to 700 persons it has been estimated that 270,000 homemaker-home health aides are needed in the U.S. in addition to those currently employed.

Total Slots - 237,000-270,000
Our Estimate - 200,000

9. Recreation Programs - 50,000 Slots

- Developing and supervising summer, after school and/or evening recreation or library programs for children and adults.

Examples of Recreational Programs

Boston, Massachusetts - A project to train water safety instructors to meet the growing need for instruction caused by a lack of funding. Instructors will be placed in community school aquatics staffs.

Battle Creek, Michigan - A project to provide full time, year round recreational program for the handicapped. Project will include indoor and outdoor winter and summer sports.

Wooster, Ohio - A project to develop and implement an organized recreational program in conjunction with a local community action agency. Major focus will be to integrate the agency's efforts with other recreational programs.

Muskego, Michigan - A project in conjunction with a local community center, recreation program to stimulate area interest and participation in adult and youth recreation activities.

Factors Considered in Estimating Slots

- Assuming 50 percent of the 60,000 elementary and 20,000 public high schools could utilize 2 workers per recreational program, then 80,000 slots could be created.

- Adding 2 crecreational aides to staffs of the 2100 YMCAs and YWCAs cold create 4200 job slots.

- Adding 4 recreational aides or athletic instructors to each of the 14,237 municipal and county indoor recreation centers would create an additional 57,000 jobs.

Total Slots - 141,200
Our Estimate - 125,000

10. Weatherization - 50,000 Slots

- Installing insulation in the attics and walls of homes of poor and elderly families.

- Caulking and glazing of windows and doors.

- Installation of storm windows.

- Outreach to determine eligible households.

- Recordkeeping and scheduling.

- Inspections of completed work.

Examples of Weatherization Projects

Worthington, Minnesota - Providing home insulation and energy conservation assistance to interested low-income households in a four county area.

Wooster, Ohio - Developing and implementing a energy conservation and weatherization program for elderly and low-income households.

Glenwood City, Wisconsin - Implementing, with local Community Action Program, a housing improvement and weatherization program for low-income residents in an eight county area. Involves installation of wood stoves, solar heat collectors and making other energy saving improvements.

Factors Considered in Estimating Slots

- It is estimated that there are 1.88 million homes of the poor and elderly that could be weatherized over the next 7 years. Assuming each weatherization crew of 7 members can weatherize 200 homes per year, then 65,800 persons could be employed.

Total Slots - 65,800
Our Estimate - 50,000

11. Paraprofessionals in The Schools - 150,000 Slots

- Serving in such functions as:
  - o Teachers aides
  - o Playground, lunchroom, and study-hour supervisors
  - o Ombudsmen between students and school personnel
  - o Nutrition and food service aides

Examples of Projects Utilizing Paraprofessionals in the Schools

Boston, Massachusetts - CETA participants are serving in a paraprofessional capacity at St. Joseph's school as co-teachers, maintenance workers and nutrition specialists.

Whitehall, Michigan - The public schools hire roving ombudsmen to provide easily identifiable and available adult contacts for the students. They serve in such capacities as liaison between the students and the attendance office and "quasi-counselors."

Factors Considered in Estimating Slots

- 160,000 jobs would be created if an average of 4 paraprofessionals were added to the staffs of half of the approximately 60,000 public elementary and 20,000 public secondary schools in the country.

Total Slots - 160,000
Our Estimate - 150,000

12. School Facilities Improvement - 100,000 Slots

- Making minor repairs, renovations and improvements to existing school buildings

- Improving or expanding existing school athletic facilities

Examples of Projects to Improve School Facilities

Piedmont, California - In order to substantially reduce the school district's consumption of energy and water resources the project will involve installing water conserving devices, repairing plumbing, window sashes and heating and ventillation systems.

Sartell, Minnesota - Constructing an outdoor learning center for the Sartell Independent School District.

San Lorenzo, California - Upgrading unsafe playgrounds and renovating grounds to improve the security of San Lorenzo School District facilities.

Factors Used in Estimating Slots

- If 20 percent of the approximately 80,000 public high schools and public elementary schools would develop a project employing 8 persons, some 128,000 slots could be created.

Total Slots - 128,000
Our Estimate - 100,000

13. Arts and Cultural Activities - 75,000 Slots

- Museum aides.

- Art, music, history, and drama work and education activities in urban and rural areas.

- Library aides.

Examples of Cultural Projects

Balance of State Wisconsin - Assist the Green Bay/Brown County Public Museum to sort, record, file and catalog press negatives, TV film, foundation funding sources, archival specimens and pieves of literature.

Oakland, California - CETA workers will be involved in the creation of art exhibits to be held in various buildings owned or leased throughout Alameda County.

Wiliniar, Minnesota - Participants perform minor maintenance to library facilities. Aides also service the homebound and hospitalized with library requests.

Factors Used in Estimating Slots

- If an average of 5 persons are added to each of the more than 2,000 museums (art, history, science), then 10,000 slots could be created.

- Labor-intensive community outreach projects of varying size could be established in the Nation's cities. Various arts, drama and craft projects employing in total an average of 100 persons have been established in many of the 150 largest cities. If the next smallest 350 cities operated such projects employing in total 25 persons then, 24,000 slots could be created.

- It is estimated that there are over 15,000 public, college and university libraries. If an average 3 workers are added to each library then, a minimum of 45,000 slots could be created. In addition, there are some 15,000 other libraries not included in our public system. If half of these added on average 1 worker then, 7,500 jobs could be created.

Total Slots - 86,500
Our Estimate - 75,000

Altogether, the estimated number of slots in these categories alone is 1.4 million slots. However, as was indicated at the outset of this paper there are a large number of projects that do not fall into these categories. A description of additional projects, many of which are indigenous to a given local area, are described below.

Examples of Projects Not Included in the Major Categories

- Health screening for hypertension and other medical problems, providing other health services. Manning emergency ambulance services.
- Establishing mini-markets where fresh vegetables and fruits are purchased at wholesale prices and made available at those prices to ill, aging, and handicapped throughout "the city".
- Operating food cooperative to increase the purchasing power of low-income people.
- Remodeling and rehabilitating existing publicly owned buildings to serve as emergency housing facilities where displaced low-income people can find temporary shelter.
- Training young ex-offenders to counsel potentially delinquent youth.
- Outreach programs to inform low-income people, the aged etc. about benefits and services available to them.
- Conducting surveys to determine community needs.
- Providing transportation services: e.g., unemployed workers to potential job sites or training, young people to recreational centers, elderly to clinics, etc.
- Establishing a comprehensive child abuse and neglect identification program.
- Restoring historic buildings to serve as tourist attractions.
- Converting vacant city lots into food-producing gardens; home canning projects.
- Renovating and rehabilitating buildings to provide day care centers, drug treatment centers, and other public facilities.

- Working in dog control programs.
- Counseling public housing tenants on such matters as household budgets, home maintenance, etc.
- Counseling young mothers on "parenting".
- Employing residents to maintain and repair public housing projects.
- Providing food and other services at neighborhood centers, such as those for the elderly.
- Landscaping, renovating, maintaining cemetaries.
- Compiling a variety of directories containing information on the community, its programs, services, etc. of use to local residents, businesses, etc.
- Providing clerical serivces in a wide variety of public and private nonprofit agencies. (e.g., Salvation Army, mental health agencies, etc.)

CHART I
CETA PUBLIC SERVICE EMPLOYMENT
EXPANSION SCHEDULE

(TITLE II AND VI COMBINED)

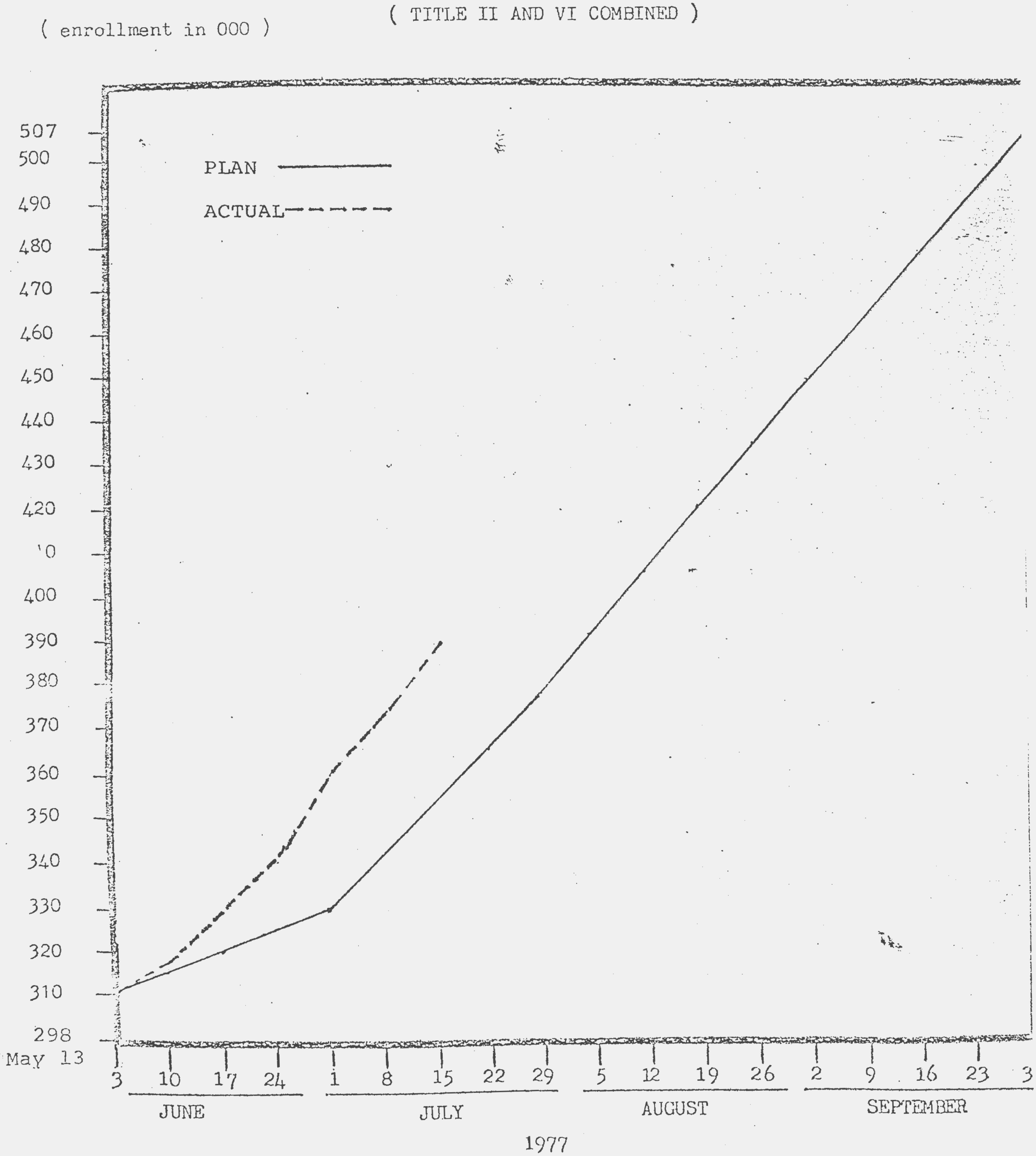

Table I

Characteristics of CETA II & VI Projects as of 7/15/77*

Public Service Function	Percent of Projects in Function
Education	12%
Law Enforcement	2
Health and Hospitals	4
Social Services	12
Transportation	4
Fire Protection	2
Environmental Quality	16
Public Works	18
Arts	6
Housing	5
Parks and Recreation	12
Miscellaneous and Other	7
All Functions	100%

Types of Work	Percent of Participants in Category
Professional/Technical Managerial	11%
Clerical-Office Worker	9
Service Occupations	8
Maintenance	37
Indoor	(9)
Outdoor	(26)
Weatherization	(7)
Community Services	23
Creative Arts	1
Conservation	8
Teaching/Instruction	2
Other	1
	100%
All Types	

*Figures are derived from ETA analysis of 5,810 project summaries covering 39,679 planned Title VI participants.

TABLE II

PROJECT NUMBER	PROJECT TITLE AND LOCATION	DESCRIPTION	WAGE DISTRIBUTION	TOTAL NUMBER OF JOBS	WEIGHTED AVERAGE WAGE
1	Jackson Bikeway Jackson, MS	Develop system of bicycle routes.	10 @ $2.54 2 @ 3.59	12	$2.71
2	Hypertension Screening Gary, IN	High blood pressure screening and detection services referral, screening and follow-up.	1 @ 2.77 3 @ 3.61 2 @ 4.69	6	3.83
3	Mini-Markets Marin County, CA	Transport vegetables and fruit to location throughout county to ill, aging and handicapped wholesale.	2 @ 3.76 3 @ *	5	3.76
4	Rockingham Mosquito Control Rockingham, NH	Identify mosquito species and breeding areas for population control.	33 @ 3.00 1 @ 2.75 10 @ 3.50 1 @ 4.80	45	3.14
5	Summer Outreach Alachua County, FL	Identify potential school drop outs and determine social and educational problems impeding achievement.	1 @ 2.48 18 @ 3.04 1 @ 4.53	20	3.09
6	Upgrading Home Security for Elderly Portland, OR	Upgrade security of homes of senior citizens and low-income families living in high-crime areas by installation of locks, latches, window grates, etc.	17 @ 4.81	17	4.81
7	Winterization Union County, NJ	Winterize 145-150 homes of low-income families and elderly.	24-28 @ 3.37-4.81	24-28	?
8	Rural Home Care Aide North Carolina, State	Provide home health care for aged, handicapped and disabled in rural areas.	40 @ 2.74 2 $ 4.08	42	2.80

PROJECT NUMBER	PROJECT TITLE AND LOCATION	DESCRIPTION	WAGE DISTRIBUTION	TOTAL NUMBER OF JOBS	WEIGHTED AVERAGE WAGE
9	Family Oriented Community Involvement Strategy St. Louis Cnty, MO	Organize service, educational, and recreational activities to provide leisure time alternatives to bored or frustrated youth.	7 @ $4.91	7	$4.91
10	Cardiopulmonary Resusitation Baltimore, MD	Train CETA participants to train general public in cardiopulmonary resusitation.	2 @ 3.88 4 @ 3.99	6	3.95
11	On-Lok Senior Health Services San Francisco, CA	Develop equipment (wheelchair, walker, etc.) and loan to elderly, handicapped; develop knowledge of needs of frail elderly and handicapped; home visitation.	4 @ 3.73	4	3.73
12	CETA and the Arts Cleveland, OH	Employ core groups of artists to design a summer youth program to teach and supervise 1,000 students in summer youth employment projects.	1,000 @ 2.30 62 @ 3.50	1,062	2.37
13	Rural Pierce County Emergency Housing Pierce County, WA	Provide temporary shelter for displaced low-income families; county-owned building to be renovated and landscaped by youth and Title VI workers.	7 @ 4.54 1 @ 4.81	8	4.57
14	Ex-Offenders as Counselors Union County, NJ	Train young ex-offenders to counsel potentially delinquent youth. Encourage youth to alter their deviant behavior.	7 @ 3.61 1 @ 3.37 1 @ 4.81	9	3.72

PROJECT NUMBER	PROJECT TITLE AND LOCATION	DESCRIPTION	WAGE DISTRIBUTION	TOTAL NUMBER OF JOBS	WEIGHTED AVERAGE WAGE
15	Otter Tail Trail Association Rural, MN	Develop system of snowmobile trails to promote winter tourism.	12 @ $2.90 1 @ 3.00 1 @ 4.81	14	$3.04
16	Weatherization S. Dakota State	Provide low-cost, energy-efficient improvements to homes owned by low-income persons.	11 @ 2.45 1 @ 3.45	12	2.53
17	Lawrence Fire Prevention and Control Massachusetts State	Form fire watch and safety teams to patrol high risk districts, provide inspections and safety demonstration and promote fire prevention.	7 @ 3.75 1 @ 4.83	8	3.88
18	Food Stamp Outreach Pinellas County, FL	Educate low-income residents to food stamp program.	22 @ 2.84 1 @ 3.57 1 @ 4.81	26	3.00
19	Alpine Creek Flood Control and Green Belt Texas State	Provide flood control measures and develop creek bank as green belt and recreational area.	16 @ 2.30 2 @ 2.50 1 @ 3.00 1 @ 4.80	20	2.48
20	Red Cross First Aid Indiana State	Provide full range of first aid training and station operations.	1 @ 2.89 36/3.86-4.34 2 @ 4.22	39	?
21	Witchweed and Fire Ant No. Carolina State	Locate and control the spread of fire ants.	51 @ 2.75 23 @ 3.25	74	2.90
22	East Oakland Revitalization Oakland, CA	Rehabilitation of buildings, increasing and improving recreational facilities; community improvement projects.	118/3.35-9.39	118	?

PROJECT NUMBER	PROJECT TITLE AND LOCATION	DESCRIPTION	WAGE DISTRIBUTION	TOTAL NUMBER OF JOBS	WEIGHTED AVERAGE WAGE
23	Literacy and Learning Baltimore, MD	Individual tutorial services for functional literacy, high school equivalency.	4/3.67-4.36 18 @ $4.68	22	?
24	Emergency Medical Technician Training Johnson County, KN	Provide trained personnel for a rural county emergency medical service.	12 @ 3.09	12	3.09
25	Workout Limited El Paso County, CO	Provide job counseling, supervision and employment to juvenile offenders.	3 @ 4.48	3	4.48
26	Ramps for Handicapped Memphis County, IN	Assist in construction of access ramps in business, medical, educational and shopping areas of the city.	50 @ 2.79 5 @ 3.73	55	2.87
27	Woodsland Improvement St. Lawrence Cnty, NY	Thin state and county forest lands.	50 @ 3.50 10 @ 4.50 1 @ 1.33	61	3.62
28	Crime Victimization and Attitude Survey Ft. Worth, TX	Determine characteristics of individuals and households victimized by crime. Determine priorities for improved police service.	10 @ 3.38	10	3.38
29	Tax Preparation Gary, IN	Provide free income tax counseling to low-income residents requesting help with state and federal forms.	1 @ 2.77 4 @ 3.61	5	3.44
30	Family Day Care Morris County, NJ	Train persons to provide child care services in their own home.	1 @ 3.61 22/2.46-3.64	23	?

PROJECT NUMBER	PROJECT TITLE AND LOCATION	DESCRIPTION	WAGE DISTRIBUTION	TOTAL NUMBER OF JOBS	WEIGHTED AVERAGE WAGE
31	Nature Trails Development Monroe County, NY	Develop five miles of nature trails with special provisions for the elderly and handicapped.	14 @ $3.29 6 @ 4.01	20	3.50
32	Cancer Outreach Program for Women Washoe County, NV	Provide information to resident low-income neighborhoods of Health Department cancer screening; supplementary food programs.	5 @ 3.80	5	3.80
33	Charleston Housing Project Program So. Carolina State	Improve physical and sanitary problems in public housing units; help solve range of social service and management problems.	4 @ 2.85 4 @ 2.87 2 @ 2.37 5/2.31-2.85	15	?
34	Treasures of Levy Handicraft Florida State	Instruct homebound and handicapped persons in the production of craft to be sole for their support.	1 @ 4.09 4 @ 3.84 2 @ 2.31 1 @ *	8	3.00
35	County Older Resident Program St. Louis County, MO	Provide outreach and social services to older residents.	60 @ 2.85	60	2.85
36	Cleveland Emergency Medical Service System Cleveland, OH	Create emergency victim care and ambulance service.	120 @ 4.81	120	4.81
37	Finn Creek Open Air Museum Rural Minnesota	Restore and reconstruct a homestead for maintenance as a tourist attraction.	4 @ 2.50 1 @ 4.81	5	2.96

PROJECT NUMBER	PROJECT TITLE AND LOCATION	DESCRIPTION	WAGE DISTRIBUTION	TOTAL NUMBER OF JOBS	WEIGHTED AVERAGE WAGE
38	Farish Street YMCA Day Camp Jackson, MS	Establish summer day camp to provide recreation and educational experiences for children from low-income neighborhoods.	6 @ $2.30 20 @ 3.13	26	$2.93
39	Child Health Survey Tacoma, WA	Design and conduct a child health study for families with children under 12.	3/4.25-4.81	3	?
40	Armchair Education Indiana State	Extend education outreach and job readiness counseling services into home and neighborhood learning centers.	1 @ 4.05 12 @ 4.03	13	4.03
41	Clatsop Fish Production Oregon State	Provide salmon propagation activities in Youngs Bay area.	1 @ 4.81 1 @ 3.47 2 @ 4.74	4	4.44
42	Marin County Child Abuse Marin County, CA	To reduce child abuse and neglect and improve services for abused children and their families.	1 @ 4.91 31 @ 4.43 11 @ 5.62	43	4.74
43	Community Concern for Senior Citizens Alachua County, FL	Encourage local merchants to offer discounts to senior citizens.	18 - voluntary 1 @ 3.84	19	3.84
44	Project Smarter Massachusetts State	Train mentally retarded youth to work with more severely retarded youth.	9 - * 3/1.87-4.80	12	?
45	Get to Work Middlesex.Cnty, NJ	Provide transportation to potential employment and training sites for unemployed and under employed.	4 @ 3.28 1 @ 3.46 1 @ 4.09	6	3.44

PROJECT NUMBER	PROJECT TITLE AND LOCATION	DESCRIPTION	WAGE DISTRIBUTION	TOTAL NUMBER OF JOBS	WEIGHTED AVERAGE WAGE
46	Work Release Program St. Louis County, MO	Provide subsidized work in private and public employment for sentenced and pre-trial offenders.	50 @ $2.50	* 50	2.50
47	Shellfish Rehabilitation No. Carolina State	Move thousands of bushels of shellfish from polluted waters to clean waters.	17/3.25-4.80	17	?
48	Low-Income Family Food Co-Op Palm Beach County, FL	Design and operate a food cooperative for improved purchasing prices for migrants.	10 @ 3.17 2 @ 4.10	12	3.32
49	Early Childhood Resources Houston, TX	Develop data bank on the availability of day care services for children with special needs.	1 @ 3.47 5/4.10-4.82	6	?
50	Cocheco River Cleanup Rockingham, NH	Improve recreational use of Cocheco River.	42 @ 3.00 5 @ 3.25 7 @ 3.75 1 @ 4.80	55	3.15

* Part-time jobs

			Avg. Hourly Wage
Total number of jobs (all projects)	=	2,272	$3.05
Total number of jobs minus Project #12 (1,062)	=	1,210	$3.67

TAB 2

TAB 2
7/25/77

PRIVATE SECTOR INVOLVEMENT IN EMPLOYMENT AND TRAINING PROGRAMS

The goal of the jobs and training portion of welfare reform is to reduce economic dependency. Subsidized employment is not intended to be a permanent situation for poor persons. The jobs/training program will be a means of moving families from reliance on cash assistance to self-support from unsubsidized employment. The total amount of unsubsidized employment available in the entire economy is a function of macro-economic policy. As labor markets get tighter, however, the availability of trained manpower and the ability to match individuals with openings in an efficient way establishes the employment limit. Even at less than full employment, there may be some jobs that go unfilled because of labor shortages or poor matching of jobseekers and employers in our heterogenous economy. Thus, three objectives must be achieved if the goal is to be met: a growing economy, effective training, and a good working relationship between private employers and the employment system.

This paper describes the relationships between existing and past employment and training programs and private sector employers. It also suggests some additional approaches which should be tested or implemented to improve unsubsidized job opportunities in the private sector for the welfare reform clientele.

I. Historical Experience

Since the enactment of the Manpower Development and Training Act (MDTA) in 1962 and the Economic Opportunity Act in 1964, the Department of Labor has launched a number of initiatives to encourage the active participation of the private sector in the Government's employment and training efforts.

MDTA - OJT

The earliest effort was the basic OJT program (later the JOBS Optional Programs, or JOP) through which participating employers were reimbursed for the extraordinary costs of training and hiring disadvantaged workers (who had to constitute at least 50 percent of enrollment), and other personnel who were not routinely selected for their workforce.

No special support in the form of child care, transportation, medical services, etc., were provided. This effort was more frequently used by smaller employers willing to take on a limited numbr of workers, and in rural areas.

NABS - JOBS

The Job Opportunities in the Business Sector (JOBS) program initiated by President Johnson in 1968 was a joint undertaking of the National Alliance of Businessmen (NAB) and the Department of Labor. Firms were reimbursed under the contract portion of the program on a fixed-fee basis for "extraordinary" costs of hiring, training, and providing supportive services to "disadvantaged" persons.

Participating employers, recruited by the staff of the NAB in metropolitan areas were reimbursed for training costs at a rate equal to about 50 percent of wages. In addition, contracts provided reimbusement to employers for expenditures on counseling, remedial education, English as a second language, medical and child care, transportation assistance, and the like. The reviews of the NAB/JOBS effort are mixed. It did at least provide a defined role for the private business sector in a Federal program, and it exposed the problems of the target population to the private business community. It may have helped some to redistribute job opportunities to the disadvantaged.

The General Accounting Office report on the NAB-JOBS program concluded that the program did not result in job creations, and raised serious questions about its administration and cost accounting procedures. This program may have resulted in substantial windfall gains to employers with strong demand for workers during the Vietnam build-up period.

Payments under NAB-JOBS averaged about $2,800 per worker. A total of 350,000 workers participated in the contract portion of the program between the program's inception and its decline during the 1970-71 recession. Still others participated on a "volunteer" basis involving no payment by the Labor Department for training and other costs.

CETA - OJT

Under CETA, OJT has been used very little, due at least in part to the recession. In those jurisdictions where there is some OJT activity, it is generally on a small contract basis with few or no supportive services integrated into the program. Private sector participation in CETA planning councils has been sporadic, and prime sponsor relationships with the present NAB Metro network are highly variable from jurisdiction to jurisdiction.

WIN/Welfare Employment Tax Credits

Title VI of the Revenue Act of 1971 provided a special WIN tax credit to employers of individuals who are Work Incentive Program (WIN) registrants. The Tax Reduction Act of 1975 provided for a similar welfare tax credit for employers of recipients of AFDC whether or not they were also WIN registrants.

These credits, equal to 20 percent of the first $5,000 of gross covered wages or salary for the employee's first 12 months of employment, could only be claimed if the employee were retained for at least 12 months. The amount of the credit could not exceed the first $25,000 of tax liability plus 50 percent of liability in excess of $25,000. (The Welfare Tax Credit can be claimed by non-business employers of AFDC recipients, e.g., private households.)

The Tax Reduction and Simplification Act of 1977 revises the WIN/Welfare Tax Credits in several respects. The credit limitation has been raised to $50,000 of tax liability plus 50 percent of liability in excess of $50,000. In addition, the Congress intended to reduce the minimum retention period from one year to 90 days, though the language in the Act is not definitive. Whereas it was previously the responsibility of HEW to certify WIN registrants, under the Tax Reduction Act the Department of Labor is given authority to certify both WIN and AFDC clients. During 1976 there were approximately 28,000 individuals certified, about 15 percent of all WIN job entries.

About 47 percent of tax certifications were obtained by firms in manufacturing. About 38 percent of certifications were for firms with fewer than 25 employees. A recent DOL-sponsored study of a demonstration project designed to increase the utilization of the tax credit concluded that lack of employer knowledge about the availability of the tax credit was an important reason for its low level of utilization. The sparce evidence suggests that the WIN tax credit has not been used to stimulate job creation.

II. New Initiatives Recently Taken

The Tax Reduction and Simplification Act of 1977 also established a new jobs tax credit, not restricted in any way as to type of employee. The credit allowed is 50 percent of the first $4,200 of covered wages and salaries for each new employee above a base employment level (defined at 102 percent of covered wages paid during the previous year), with a $100,000 per year limitation.

In addition, employers are eligible for an additional 10 percent tax credit for the first $2,200 of wages paid to new vocational rehabilitation referred employees during their first year of employment. Such credits can only be claimed in conjunction with the broader tax credit described above, and cannot exceed 20 percent of the amount of credits claimed under the New Employees provision.

Help Through Industry Retaining and Employment (HIRE)

Funded under CETA Title III, this program is designed to provide incentives to industry to hire and train the long-term unemployed. First priority is given to disabled Vietnam-era veterans, then other Vietnam-era veterans, veterans generally, economically disadvantaged youths, long-term unemployed, and low-income persons.

Under the terms of the program, employers can submit a program proposal to the Labor Department's national office indicating their willingness to hire a minimum of 100 eligible target group members, and to conduct training at more than one employment site. Recruitment reliance is to be placed on the Employment Service over an initial five-day period; then employer recruitment efforts may ensue. All certification of eligibility, however, must be accomplished through the ES. Jobs must pay a minimum of $3.50 per hour, and must provide a "reasonable expectation" of continuing employment beyond the reimbursable at a negotiated rate not to exceed 50 percent of the employee wage, or $5 per day per employee up to a maximum of $1,300 per year per person.

In FY 1977 funds were allocated for 46,000 slots; 92,000 slots in FY 1978. This program is now in the implementation stage. Although it is too early to assess its potential, the initial reaction of the business community is encouraging.

Skill Training Improvement Program (STIP)

$250 million of funds in Title III of CETA will be made available over the next 18 months to create some 50,000 training slots. Projects will be conducted through CETA prime sponsors, who will arrange for heavy involvement of private employers in the selection and design of training. Occupational areas will be chosen in which employers are fairly certain about post-training placement prospects. Employers will advise on all aspects of the conduct of the training.

III. Potential Additional Steps

The most important function that a training and employment system can serve for potential employers is to provide well-trained employees when and where needed. The most important function that the system can serve for potential workers is to provide them training and jobs when and where needed. The jobs portion of the welfare reform design will try to do both. The intent is to involve the appropriate employer organizations in the planning for these programs, and to obtain accurate estimates of labor market needs that will shape the training program. The State organization should be able to give employers an indication of where their labor needs can best be met. The ES and CETA organizations should be able to identify individuals who have performed adequately on subsidized employment and have been trained in skills that are useful to potential employers. At the same time the public services provided, under the subsidized work, should make low-income communities more attractive for potential employers, by enhancing the physical environment and improving the conditions of public safety and fire protection.

One of the most effective ways to achieve the objectives noted above is through on-the-job training. This permits employers to learn about the potential skills of employees as well as imparting particular skills to those involved in the program. It also insures that the potential employees are receiving training that can be used in unsubsidized work. The program would provide the CETA sponsors with the freedom to engage in on-the-job arrangements with employers to the maximum extent possible.

The incentive structure facing the CETA prime sponsors is such as to encourage them to use this method, especially to the extent that the private sector will pay for a portion of the employee's total wage. The job/cash supplementation structure is also designed to provide strong incentives for low-income workers to seek and hold regular economy employment in preference to the subsidized jobs. A higher total income is provided (through the earned income tax credit) for a worker in private sector employment as compared to a worker earning the same wage in a subsidized job. Other features which reinforce incentives for private employment include: a mandatory requirement of a period of unsubsidized job search for workers who have held subsidized jobs for 52 weeks; and priority reinstatement for subsidized public workers taking seasonal or short-term private sector employment.

The incentive structure embodied in the welfare reform proposal is designed to reward employable welfare recipients for private sector employment; i.e., to affect the supply of labor. In addition to the array of program efforts described previously, there are several other methods to stimulate private sector involvement (i.e., means of affecting the demand for labor) which deserve testing or implementation.

Experimental Measures

o A broader test can be made of a scheme now used in several projects in which a portion of wages of PSE workers is set aside and paid in a lump sum when a worker has acquired and retained a competitive sector job for several months.

- Full use can be made of the provision in the forthcoming Youth Bill which allows for experimental projects that utilize wage subsidies. Prior to this Bill, such subsidies were not authorized in any manpower legislation, either on an operational or even experimental basis. Welfare Reform legislation can authorize further wage subsidy experimentation.

- A voucher approach to administering training subsidies can be tested widely. Individual job applicants would be given vouchers to use in their own job search efforts. Employers hiring applicants carrying vouchers could use the vouchers to claim reimbursement from the Labor Department for training costs of vouchered workers.

- As an alternative to a wage subsidy approach (which has been opposed steadfastly by organized labor on grounds that it would erode wage rates), the government could, on an experimental basis at first, pay the entire wage of enrollees placed with private firms for the first 8 weeks, say, of competitive employment. This 8-week period would be treated as "vestibule" training or as an internship. The enrollee would still be on the PSE rolls and would not yet be an employee of the firm. The enrollee would be placed on "reimbursable detail," as it were, with the profit-making employer. Firms would have to agree to hire eventually a high percentage of such interns, as a condition of participation.

Operational Measures

Governors, mayors, and county executives will be required in the legislation to prepare plans covering States and labor market areas in which the role of private employers is spelled out. These plans should, where possible, indicate in specific terms the types and target levels of commitment of the business community to the employment and training of the eligible population. These plans, constituting State and local strategies for private sector job development, would be prepared with participation of employers and would be coordinated by Governors. State and local planning councils (as currently constituted, these councils have an over-representation of public and non-profit agency members) would be used in this process and provide for ample participation of employers. There would be extensive use of industry committees to help shape the program in key occupational areas.

The next few years will be the first time that the decentralized CETA system will be operating in an expanding labor market. This will provide the necessary conditions for a successful effort to involve the business community in local planning and further use of OJT and existing tax credits.

In addition to the various incentive approches designed to enhance private sector participation in employment and training programs, the Employement Service continues to be a major source of contact with the job opportunities afforded by the private sector. In FY 1976, 7 million unsubsidized job openings were listed with the Employment Service; 3.4 million individuals were placed; and 4.8 million placements were made in unsubsidized employment. (The disparity between the latter two figures reflects some multiple, short-term placements of the same individuals.)

The Labor Department intends to install a computerized system of job matching for every State ES operation by fiscal 1981. This system will track the welfare reform population that is engaged in unsubsidized job search, and those in the subsidized job and training slots, and continuously match them with the listed job openings.